Michael P. Morris, Chairman
Kevin S. Carter, Director

MINUTES OF THE MEETING OF THE SCHOOL & INSTITUTIONAL TRUST LANDS ADMINISTRATION BOARD OF TRUSTEES

DATE:	AUGUST 17, 2006	
PLACE:	HEBER CITY, UTAH	
ATTENDING:	<u>BOARD</u>	<u>STAFF</u>
	Michael P. Morris	Kevin S. Carter
	John Ferry	John Andrews
	Jim Eardley	Ric McBrier
	James Lee	Kay Burton
	Gayle McKeachnie	Dave Hebertson
	John Scales	Kim Christy
	Michael Brown	Kurt Higgins
		LaVonne Garrison
		Elise Erler
		Tom Mitchell
		Rodger Mitchell
		Lynda Belnap

<u>OTHERS IN ATTENDANCE</u>

Margaret Bird, State Office of Education
Eric Overby, U. S. Attorney's Office
Tim Clark, U. S. Forest Service
Mike Johnson, Utah Attorney General's Office
Val Draper, Wasatch County
Jack R. Luellan, Beatty & Wozniak, P.C.
L. R. Young, Red Creek Cattle
Roland Robinson, Free & Associates
McKay Edwards, Edwards Group
Natalie Gordon, Utah PTA
Paula Plant, State Office of Education
Reed Petersen
Richard Buehler, Division of Forestry, Fire and State Lands
Ruland Gill, Questar
Pat Bienvenue, Leucadia
Mark Olshager, Leucadia

I N D E X

Chairman Morris welcomed Board members, Staff, and guests to the meeting.

1. Welcome and Oath of Office for New Board Member

Chairman Morris welcomed Michael R. Brown to the Board of Trustees as its newest member. Chairman Morris administered the oath of office to Mr. Brown.

2. Approval of Minutes

Mr. Lee had the following changes on the Board minutes of June 29: on Page 19, he suggests that the word "comment" be added to the last sentence, last word, in order to more fully explain what "this" is; on Page 22, last paragraph, sentence 9, after the word "sold" add the words "in the President's land sales proposal"; on Page 31, last paragraph, fifth line, insert the word "he" after the word "but"; and on Page 39, first sentence, change the word "awarded" to "concerned". With these corrections, the Board approved the minutes.

Lee / Ferry. Unanimously approved.

"I move we approve the minutes as amended."

Roll Call:

Lee - - yes	Ferry - - yes
Eardley - - yes	McKeachnie - - yes
Scales - - yes	Brown - -yes
Morris - - yes	

3. Confirmation of Upcoming Meeting Dates

The Board, without motion, changed the October meeting date from October 12 to October 19 and confirmed the following meeting dates:

September 14, 15 - - St. George (meeting on the 14th, tour on the 15th)
October 19 - - Salt Lake City
November 9 - - Salt Lake City
December - - No meeting.

4. <u>Initial Consideration of Petition for Review of Agency Action - - ML 47278 and ML 47279 - Black Sands Holding Company</u>

Mr. McKeachnie stated he has a conflict of interest in this issue. He has had an attorney-client arrangement with Black Sands. He has not had anything to do with what is before the Board. Therefore, he can remain in the meeting and will refrain from discussion.

The attorneys making appearances in this matter are Tom Mitchell, for and on behalf of the Trust Lands Administration; and Jack Luellan of Beatty &Wozniak, P.C., for and on behalf of Black Sands Holding Company, the petitioner; and John Andrews representing the Board.

Mr. Andrews stated that one of the responsibilities of the Board is as the initial decision-making authority in appeals to the actions of the agency. They are a judicial body in resolving disputes. One of the options is simply to not consider the appeal in front of the Board. They may determine that the decision in front of them is sufficiently time-consuming that the courts should make the decision. This would be a decision that would not have any substantive effect other than letting it move on to the courts. The second option is to conduct an informal adjudication of the dispute. Take whatever information petitioners have to give, but there would not be any formal taking of testimony, etc. The Board would make its decision based on the briefings and evidence, but would not conduct a full-fledged trial. Were the Board to do that, any subsequent appeal would be to the district court; and it would hear it de novo into the full court process. The third option is to conduct a full-fledged adjudicative proceeding, either as a full Board or the appointment of a hearing officer. This is more time-consuming and would involve the Board in conducting a trial-type proceeding. There would be opportunities for discovery by both parties. The advantage of that type of proceeding is that the Board's decision would not be appealable to the district court, but would go directly for review by the Utah Supreme Court on the Board's factual issues.

Mr. Andrews noted that the purpose of this hearing today is not to determine the merits of the appeal, although counsel can answer questions, but to determine whether (1) the Board wishes to hear the appeal and (2) whether the Board wants to hear it as an informal or formal adjudication.

Mr. Mitchell stated the matter is really two matters arising from similar facts. At the end of May of this year, a number of leases expired at the end of their term. Black Sands had received an assignment several months before the expirations. Just prior to the expirations, several days before Black Sands engaged in some activity that they claim would extend the primary terms. They claim the primary terms were extended and made their case to the Director. The Director found the leases had expired on their own terms. On all but one of those leases there was a Final Agency Action. Only one was appealed at first. There was another lease where additional

<u>4.</u> <u>Initial Consideration of Petition for Review of Agency Action - - ML 47278 and ML 47279 - Black Sands Holding Company (cont'd)</u>

information was requested. Upon receipt of that information, the agency took Final Agency Action to terminate it; and it was also appealed. They differ a little. One claims it did not expire, and the most recent appeal claims that communications from Trust Lands' personnel were delayed; and that delay unjustly or inequitably caused them to delay their activities. For that reason, the lease is not in arrears. Trust Lands believes that it is appropriate to hear it and believes it should be a formal hearing so that the appellate court can review what this Board believes that clause in the lease means. The other one is more philosophical. It really is a claim that could arguably be tried more sensibly in a court because of the expertise required. It goes to where there was a delay and whether that delay was caused by the agency.

Mr. Luellan stated Mr. Mitchell did a very good job in explaining the basic facts. It does seem, however, that the estoppel question is more problematic. If the Board decides to hear the first petition, there may be some efficiency in hearing both and determine that some relief is appropriate. That could save everyone time and money. They are comfortable on proceeding on the estoppel issue with either way.

Mr. Lee noted that there are four or five leases noted in the first petition and asked what the appeal affects. It was noted that it only affects ML 47278 on that petition. Mr. Mitchell stated there may be an economy in trying them both; but, if the Board splits them up, it would make sense not to hear the estoppel one. If the Board decides not to hear these at all, Black Sands can file litigation in district court to challenge the agency's actions.

It was noted that Staff has generally expressed in the past that formal hearings be left to issues the Board wants to clarify its policies, etc. Mr. Lee noted that this language refers to old language in the leases. Mr. Mitchell stated there are many leases out there that have this old language still.

Lee / Brown. Unanimously approved.

> "I move that the Board, through an administrative assignment to someone on the Board or others, conduct a formal hearing to resolve these petitions."

4. Initial Consideration of Petition for Review of Agency Action - - ML 47278 and ML 47279 - Black Sands Holding Company (cont'd)

Roll Call:

Lee - - yes
Ferry - - yes
Eardley - - yes
McKeachnie - - yes
Scales - - yes
Brown - -yes
Morris - - yes

Chairman Morris appointed John Scales as the hearing officer. Mr. Andrews stated he will work with Mr. Scales to determine a schedule.

5. Confirmation of PS 8116 – - Sale to Great Salt Lake Council, Inc. - Boy Scouts of America

Mr. Christy reviewed this with the Board. Pursuant to Rule R850-80 and a recommendation from the Board as discussed in closed session at its June 29, 2006, meeting, the agency is seeking formal approval to sell the following property, currently leased to the Great Salt Lake Council of Boy Scouts of America (BSA) under Special Use Lease Agreement 176:

Township 1 North, Range 10 East, SLM.
Section 1: Lot 3, N2 of Lot 4, NE4SE4NW4

Township 2 North, Range 10 East, SLM
Section 35: S2S2NE4NW4, N2NE4SW4, SE4NE4SW4, N2SW4SE4, SE4SW4SE4, SE4SE4, N2SE4
Section 36: SW4, SW4NW4SE4, SW4SE4, SW4SE4SE4

Containing 564.82 acres, more or less. Beneficiary: Public Schools.

This property is located on the East Fork of the Bear River within the Wasatch-Cache National Forest in Summit County.

Background: In 1963, the legislature passed Senate Bill No. 9 authorizing and directing the State Land Board to exchange part of a school section (Section 36, Township 2 North, Range 10 East, SLM) to the Federal Governmental for a similar amount of land and to lease the land received in the exchange and the remaining part of Section 36 to the BSA for a period of 99 years. On April 18, 1968, the U. S. Forest Service issued a patent to the State of Utah for 344.82 acres.

5. Confirmation of PS 8116 – - Sale to Great Salt Lake Council, Inc. - Boy Scouts of America (cont'd)

This acreage, together with the remaining 220.00 acres in Section 36, totaling 564.82 acres, was designated to be used as a scout base camp for the BSA.

SULA 176 was issued to the BSA on July 1, 1968, for a term of 99 years. The annual rent was negotiated to be two percent of the $30 per acre appraised value of the subject property, which translates to $338.89 per year for the lease. The lease also has no rental-review clause.

In 2002 a forest fire burned a significant portion of the subject property, which created public safety and liability concerns. Following this fire, the BSA approached the agency and expressed interest in purchasing the property through a negotiated sale. The agency was poised to accommodate the BSA's request, even to the extent of procuring an appraisal (completed in April, 2004) and also completing a cultural resource survey and associated consultation protocol concerning the property. The BSA's interest in following through with a negotiated sale unfortunately subsided, however, mainly because of their expectation that the sale price should be substantially reduced to reflect the encumbrance of the lease, which was unacceptable to the agency.

The concerns over risk for public safety and liability associated with the 2002 fire resurfaced last Fall. Counsel for the insurance company representing the BSA notified the Agency of this concern. The Agency concurred with the concerns expressed by their counsel and subsequently suspended SULA 176 until the BSA could demonstrate that reasonable mitigation measures were satisfied.

Early this Spring, the BSA approached the Agency requesting reconsideration of a negotiated sale of the property. The two parties agreed to pursue a negotiated sale transaction. The agency in turn initiated a second appraisal, which was completed on June 26, 2006.

In accordance with SITLA's administrative rules pertaining to the disposition of properties, a Notice of Proposed Trust Lands Sale was initiated and completed on June 19, 2006. The only proposed offering received was submitted by the BSA. The BSA's offer was to purchase the property for 115 percent of the appraised value, plus associated closing costs.

<u>5.</u> <u>Confirmation of PS 8116 – - Sale to Great Salt Lake Council, Inc. - Boy Scouts of America (cont'd)</u>

The appraised value of the subject property is $1,836,000. One hundred-fifteen percent of the appraised value is $2,111,400. The BSA will submit 10 percent of that amount ($211,140) by July 31, 2006. The remaining balance of $1,900,260 is to be carried on contract with SITLA for a period of 20 years at an annualized variable interest rate of prime plus 2.5 percent, with no penalty for early payoff. The BSA has indicated, however, that it intends to pay off the contract prior to October 1, 2006.

Chairman Morris asked Ms. Bird how the beneficiaries feel about this sale. Ms. Bird indicated they feel it is the smartest thing to do under the circumstances.

Eric Overby, Assistant U. S. Attorney, was in attendance and stated that they had just learned yesterday of this sale. There was a significant wildfire on this area over a year ago. The United States and the State of Utah have brought actions against the BSA. Neither of them has had a chance to evaluate the terms of the sale and don't know the effect of the sale upon the fire issue. He is asking the Board to delay this to see if it would have any adverse impact and give them an opportunity to review the terms. Mr. Lee stated he can't see how the sale would have an adverse impact because the BSA would now own the property that is worth over $2 million. Mr. Overby stated they would like to see the documents and the actual terms to see if there is anything in them that might prejudice the U. S. Attorney's claim. He noted that BSA had expressed concern to meet its deductible regarding the fire.

Mr. Mitchell noted the claims that the state and the federal government refer to are not claims of this agency's. Our goal is to have a return to our beneficiaries - - is this sale in the best interest of the beneficiaries and is the Trust mandate being fulfilled by this sale? Whatever leasehold interest BSA had should not be a consideration on the Trust's part as to whether this is in the best interest of the beneficiaries. Mr. Lee stated this Board does not have any authority to waive any claims that the U. S. Attorney's Office may have. Mr. Overby stated they have just not had a chance to look at the terms, and they would like to do that. Mr. Andrews noted that the worry the U.S. would have is that the lease contract between the Division of State Lands and Forestry in the 1960's and the BSA provided that the BSA would take certain care as to timber, fire, etc. There is the possibility that there is a breach of contract claim against the BSA. When the leasehold merges into the fee interest, it could arguably go away. He thinks it could also be argued that it could be asserted by the State of Utah. The question that the Board has to consider in a delay is what effect will it be on the sale if we were to seek to revise the transaction, which is subject to final Board approval, to carve out some claim to make it easier for the litigation to proceed?

5. Confirmation of PS 8116 – - Sale to Great Salt Lake Council, Inc. - Boy Scouts of America (cont'd)

Mr. Mike Johnson, of the Utah Attorney General's Office representing the Division of State Lands and Forestry, stated that, without reviewing the language, it is hard to speak as to what the effect would be on their case. There is a concern that it might affect the contract language of the lease. They are concerned it may complicate their prosecution of that case. They see it as a simple fix, depending on the analysis of the sale, to insert language regarding the liability of the fire. The BSA may have some concern about having language like this inserted. The State's position is the same as the U. S.'s position to simply delay the approval of this deal in order to review the contract. Mr. Andrews stated the contract is silent on the issue of the liability of the fire. Our agency would not have had any discussion with the BSA on the fire issue. There is not anything in the lease that would purport to limit the claims of the state against the BSA regarding the full liability. He again expressed concern about having language in the sale regarding fire liability. Mr. Johnson stated that the Division appreciates that Trust Lands has no liability for the fire. The Department of Natural Resources has no objection to the sale of the land. He thinks the Board's duties could be better discharged by reviewing the terms of the sale. Mr. Overby stated that, if there were a short delay in the sale, they could see if there is anything that affects them. Mr. McKeachnie asked if the claim involves anything other than fire suppression costs? Mr. Johnson stated it only involves fire suppression costs. Their concern is to how the breach of the lease by BSA stepping into the ownership may affect their claim. Possibly, the review of the language beforehand could ultimately fix that. Mr. Carter stated they could review the documents before we close. We are willing to share documents.

Lee / Eardley. Unanimously approved.

> "I move we approve the Staff's recommendation to allow the BSA to purchase this property."

Roll Call:

Lee - - yes	Ferry - - yes
Eardley - - yes	McKeachnie - - yes
Scales - - yes	Brown - -yes
Morris - - yes	

6. Amendment to Johnsons-Up-On-Top Development Lease - to Leucadia

Mr. McBrier reviewed this issue with the Board.

Background: In the Fall of 2001, the Board authorized the agency to enter into a hybrid development lease transaction involving 2,000+/- acres on a mesa southeast of Moab. This transaction is referred to as Johnsons-Up-On-Top and anticipated the development of a high-end resort lodge and the development of high-end home sites. The contract, captioned "Development Agreement and Ground Lease", was executed on December 21, 2001. The developer, Mr. Michael Liss, failed on a number of instances to move forward and obtained amendments extending the lease, which now is scheduled to expire on December 31, 2006.

Mr. Liss has now requested the right to assign his interest in the lease to Leucadia Financial, an experienced, well-capitalized developer. This assignment would require certain modifications to the lease, which we have negotiated to our satisfaction with Leucadia. Accordingly, we are recommending to the Board that the agency be authorized to amend the lease as detailed below in connection with a contemporaneous execution of an assignment/assumption agreement with Leucadia. The reasons for this recommendation are set forth below.

Key basis to support proposed amendment/assignment/assumption:

Over a number of years, our goal with this property has been to achieve a significant capital investment into critical infrastructure so that development could then proceed as the market matures. Leucadia is not only an experienced developer with capital ($5 billion net worth), but they are prepared to immediately proceed with development upon approval of the first plat on terms that we view as being more favorable than those previously contained in the transaction. Phase 1 development, which would be supported by a performance bond, would include the following:

* Improved roadway (two lanes) from the base of the mesa to the Lodge site;
* Sewer from the base of mesa to the Villa Plat 1 and the Village site;
* A water system, including a pump at the base of the existing tank, a new tank on the mesa, and distribution lines to support development;
* An initial lodge structure with at least 12 units and support systems;
* A Phase 1 lot development in the Villa large lot area including 30 lots for sale;
* A Phase 1 Village site development with at least 20 lots available for sale/development.

6. Amendment to Johnsons-Up-On-Top Development Lease - to Leucadia (cont'd)

These items are projected to involve a capital investment of approximately $9 million, and Staff believes that the initial cost in more likelihood will approach $10 million.

The investment of these funds will initiate a long-term development program for the mesa. Currently, the mesa is entitled with 372 units. Projected values to the Trust based on lands sales to support full build-out are projected at approximately $20 million over the next 10 years. The Trust will also receive percentage rent on lodge rentals and all rental-pool properties on the mesa. Legal structure will be established to protect the Trust's long-term interest in these monies and to require property rentals to be handled through the pool. The Trust will also receive a RETA (real estate transfer assessment) on all assets resold on the mesa. Between the percentage rent and the RETA, the Trust will build an annual recurring revenue potential in the hundreds of thousands of dollars.

Proposed amendment: The following is a summary of the key changes which would be made to the Development Lease in the proposed amendment:

Business Points:

Sec.	Existing Development Agreement	Proposed
2.3b	Preliminary term ends 12/31/06 with tolling	3/31/07 with tolling (and until final plat approval), with outside date of 24 months.
2.5	Election to proceed by 12/31/06 with tolling	3/31/07 with tolling
3.1a	Submit revised master plan by 1/31/06	Submit now, SITLA approves
3.1b	Submit preliminary plat to County by 5/31/06	Submit by 10/1/06
3.1c	Condition precedent: Provide evidence by 12/31/06 of financial capability for Phase 1, in form of letter of credit for all costs associated with Phase 1 (or other acceptable assurance)	Change date to 3/31/07 Leave remainder as is, including tolling language; Leucadia will post letter of credit or other acceptable assurance

6. Amendment to Johnsons-Up-On-Top Development Lease - to Leucadia (cont'd)

Sec.	Existing Development Agreement	Proposed
3.3	Reset 99-year lease term following the date each lodge facility opens	Term of agreement shall be 99 years, no resets
4.3	Percentage rent (lodge and related revenues): 2.00% up to $2 million of gross receipts 2.25% on next $2 million 2.50% on next $6 million 2.25% on next $5 million 2.00% above $15 million	Unchanged for lodge-managed properties Individual properties at 2.25% Revise Sec. 4.6 (interval products) to specifically include lodge units, for which Leucadia will pay $20K/door (not per interval unit) on first 12 doors (20% thereafter), plus percentage rent if lodge units are sold.
4.6	No interval products	See proposed Sec. 4.6 in draft 2nd Amendment. Need to add language about conveying title and percentage rent requirement (1) recorded on title as deed restriction, (2) in governing HOA docs, and (3) exclusive rental company.
5.3	Anticipated final development: 225 lodge units 150 condominium units 110 home sites	Current Plan: 72 lodge units 161 Rim Village units (dense courtyard homes) 175 Mesa Lots (estate lots averaging 1.5 acres) Potential for affordable/workforce housing, to be defined at a later date.
5.4	Phase 1 development: 12 lodge units minimum, up to 48 units 15 home sites min., commenced within two years	Eliminate 3-phase concept Agree to proposed phasing plan with 10 phases both in village and on mesa, not linked

6. Amendment to Johnsons-Up-On-Top Development Lease - to Leucadia (cont'd)

Sec.	Existing Development Agreement	Proposed
5.4	No limit on number of condo units, as long as 100-acre constraint is observed; no limit on number of home sites, as long as within Phase 1 geographical boundary	Reasonable flexibility to revise phasing plan (e.g., shift phase location/sequencing, enlarge or combine phases). When inventory falls to 7 units, either in village or on mesa (not linked), developer must commence construction of next phase within two years.
	Developer currently has 12 years from commencement to proceed to Phase 2; 17 years to proceed to Phase 3.	Provide evidence of financial capability (LC), termination provision by SITLA; allow 25 years to complete.
5.5	Continuous lodge operation	Allow seasonal closures, force majeure "Reasonable consent" in writing by SITLA to approve assignment to third-party operator
5.6	Reference to Butterfield & Robinson	Keep first sentence, delete remainder
6.1a	Can sell home sites upon completion of all infrastructure	Can sell at final plat and bonding, with obligation to deliver finished lot (streets, Rough grading)
6.2a	Lot Sales Fee: 20.0% (min. $40K) on first 24 lots 22.5% (min. $50K) on next 24 lots 25.0% (min. $60K) on all remaining	Unchanged
6.2b	Fee if home on home site = 18%	Delete section

6. Amendment to Johnsons-Up-On-Top Development Lease - to Leucadia (cont'd)

Sec.	Existing Development Agreement	Proposed
6.3	Condominium pad sales	Replace with "Village Lots" (throughout document)
	Sales begin after completion of 12 lodge units $8K/door through 12/2007 $10K/door or 20% thereafter Based on appraised value	Defined as any lot within village footprint on revised master plan (not limited to 100 acres); Sales begin after commencement of 12 lodge units
	Limited to 100 acres	$10K/door for first 50 units; $15K/door for next 25 units; through 12/2009 and capped at 75 units; 20% thereafter, based on sales value
7	Right to proceed to Phase 2 upon: Substantial completion of 48 lodge units Development of at least 15 home sites (8 sales) up to 12 years from commencement	Delete
8	Right to proceed to Phase 3 Sale of all 72 lodge units At least 24 Phase 2 lots	Delete
10.7c	Add section	Additional boundary adjustment, make cooperation reciprocal
?	Add section	Real estate transfer tax will total 1.5%; grant SITLA a 0.5% real estate transfer tax on resales; remaining 1% will be split between HOA (0.5%) and foundation (0.5%) to support arts and community

The agency requests formal Board approval to amend the transaction substantially as described above and to enter into a formal assignment/assumption/consent agreement pursuant to which Leucadia Financial would replace Moab Mesa, LLC, as the developer.

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8/17/06

6. Amendment to Johnsons-Up-On-Top Development Lease - to Leucadia (cont'd)

Mr. Pat Bienvenue and Mr. Mark Olshager were in attendance. Mr. Bienvenue made a brief power-point presentation to the Board on who they are, what they do, and how they do it well. He noted they have good investors and good staff. They believe in good planning and in good execution. They have known the current contract holder for many years and have been working with Trust Lands' Staff for a few months now. They like the deal structure with TLA, and they like the plan Mr. Liss invested in over the last year. They showed the Board pictures of developments this same designer has done. They do incredibly good land planning, which results in great developments. He expressed appreciation for the Board's patience in this project. It has been a four-five year process. They starting looking at the project in May. They are anxious to get on with the project.

Mr. Olshager stated they really will have two developments within a development - - one is a 30-lot development on the mesa and one is a 30-lot development in a village. They expect to bring up the road, sewer, etc., and get 12 units built before they make a sale. They have had initial discussions with Grand County regarding the platting process. They think they will have an opportunity to complete this next spring and start construction next summer. The current entitlement is for 336 unit. They would split this as 175 mesa lots and 161 village lots. They don't want to slow the process by changing much of the entitlements. They intend to go ahead with the current entitlements and possibly ask for more later on in adding to the density of the village.

John Andrews declared that his father-in-law is a Board member in Leucadia, and his children own some stock. This has no bearing on the project as far as he is concerned.

Mr. McKeachne asked what this would do to the original projected schedule? Mr. McBrier stated the original plan was a two-year term. He then received another year extension and then another year extension. This is where it is today. This would extend the filings and plan from December 31 to March 31. The projection for income comes about one and one-half years from when they start. The speed at which the revenue comes in depends on the pricing, appreciation, etc. We are in a participatory agreement on this project. We want a strong developer to make it happen. How does this change the original units? There will be the same number of units, just a different mix. We hope down the road a few years that there might be an increase in the density.

Ms. Bird inquired as to what there will be between the lots. It was noted it will be open space. She asked if it is open space forever or open space that could eventually be built on. Mr. Bienvenue stated it is up to him how that would be, and he is committed to building what is shown now. The density should not change much. What it shows now is eventually what

6. Amendment to Johnsons-Up-On-Top Development Lease - to Leucadia (cont'd)

they will build. The perimeter won't change, but the number of units might change within that perimeter.

Chairman Morris noted that compromises will have to be reached because our interest will be the same. They will look out for our interest as they look out for their own.

Ms. Bird inquired as to why it is a 99-year lease, which is virtually a sale? Mr. McBrier stated that is what was put together four years ago. Also, this is a development lease; and it will eventually be sold. Ms. Bird indicated this is a big deal to the beneficiaries; and, if it doesn't have to be 99 years, it would be better. Mr. McBrier stated the project would be built out far in advance of that. Ms. Bird inquired if there would be any commercial in the village; and, if so, will we retain an interest in it? Mr. McBrier stated there is going to be a lodge on which we will get a percentage of revenues.

Ms. Bird noted that she doesn't understand why we didn't let the original lease expire and then do some RFPs and get different offers. Mr. McBrier stated they came to us before the lease expired and stated they were interested in taking over the position. If we waited, they might not have been willing to do that. Mr. Andrews stated there is an existing development agreement between Michael Liss and Grand County that would expire upon our termination of the lease with Mr. Liss. We would then be faced with going back to Grand County and having to work through the entitlements again. This involved some significant legal risk. The preservation of this is a real advantage. Mr. McBrier stated that, when you have serious developers interested in your property, negotiating with other developers is not the best thing to do. When a quality long-term partner proposes to do business with you, you are foolish not to seize it. Ms. Bird stated she thinks this is a philosophical issue the Board needs to deal with - - are we choosing our partners wisely? She would like the record to show why we are doing this.

Chairman Morris stated we have an original sponsor here who has negotiated a development that will only increase in value. To cut him off is not the right thing to do long term. Mr. McBrier noted that it is also not right for the Trust as a potential business partner to do this. Chairman Morris stated that Mr. McBrier doesn't have the staff to start over with the city on this issue, and to keep this development agreement alive will save in the long run. If this is a mature, ripe deal, let's go with it. Chairman Morris stated that, as he thinks back on it, he was where Ms. Bird is the first and second time we extended this lease. The capital equation and development have changed significantly since then.

6. Amendment to Johnsons-Up-On-Top Development Lease - to Leucadia (cont'd)

Eardley / Ferry. Motion approved.

"I move we enter into this agreement Leucadia."

Roll Call:

Lee - - no	Ferry - - yes
Eardley - - yes	McKeachnie - - yes
Scales - - yes	Brown - -yes
Morris - - yes	

7. Chairman's Report

a. Beneficiary Report

Chairman Morris stated he had asked Ms. Bird to give the Board an update on the corpus of the Permanent Fund, the Treasurer, the Investment Advisory Committee, etc. Ms. Bird stated they are excited about what is happening with the Investment Advisory Committee. They had a meeting recently. Sterling Jenson is the new appointee from the State Superintendent. When the statute was changed, the rules were removed as to restrictions on investments; and it was put under the "prudent investor" rule. Callan and Associates, a nationwide financial investment advisory company, made a proposal to the State Treasurer and Advisory Committee. The Advisory Committee took it under advisement. Rather than pay the $140,000 that Callan had proposed, they decided to use about $40,000 worth of their services and see how it goes. The Committee realizes that we are sending more money to the schools than they had anticipated. They are looking at the major amount and also ways that the money is invested to control the money that gets re-invested in capital gains and how much is sent out. About three years ago, the amount sent to schools went up 42 percent. This year there was an increase of about 32 percent. Ms. Bird stated they will still try to build the Permanent Fund. We have about doubled the percentage we give to the education budget. If we can keep doubling that from our investments every decade or so, etc., it will be wonderful. The State Treasurer is very supportive of what the Investment Advisory Committee is recommending to him.

7. Chairman's Report (cont'd)

a. Beneficiary Report (cont'd)

Chairman Morris noted that there has been so much misstatement in the past regarding what the rates are. He thinks we need to incorporate into our PR strategy how to get the word out and how we are performing. There are paper gains in these strategies that are significant. We need to get into the public's mind the true performance of this fund. Ms. Bird stated that Channel 5 has expressed an interest in doing a segment on how the money is being used, and she would like to see if we can enlarge that issue with them. Director Carter noted that we also need to discuss with them the investment strategy.

Ms. Natalie Gordon, of the State PTA, stated she has given information to a legislator regarding how we are doing in investments, etc., and has sent it to the editor; and it has not been published. They are also working with their regional directors throughout the state to get similar letters written.

Chairman Morris asked if there was a financial milestone coming up on which we could have a press event? Mr. Ferry stated most of the press we get is negative, and we need to do something to get more positive press. We are going into some issues that are very sensitive, and we need to have people who understand the good things we are doing. Ms. Bird asked how we overcome the refusal of the papers to print the positive side? Mr. Eardley stated we are increasing our distribution to the schools, but almost everyone around the state thinks taxes are being raised. We do need to have an educational effort to public officials to better educate them on what the Trust's contributions are. Mr. McKeachnie stated this is one of about four meetings in the last little while he has attended where many entities are stressed out with the Salt Lake Tribune. Most of the entities have decided not to deal with the Tribune. Taking the offensive with opportunities that do exist - - places where we get other news media there - - seems to be working. Director Carter stated we are trying to take advantage of good media events when we can, but we do need to do more. Ms. Bird noted we are working on a new video this coming year that could be shown to the county officials, etc. Director Carter noted that, to some very important constituencies, we are still doing well. He has recently spent some time with many legislators, and there were no complaints heard regarding the Uinta Basin area. Mr. McKeachnie stated the ability to persuade is much more what we see, how we deal with them, and how we make relationships. We need to have some good relationships with the people in the media.

7. Chairman's Report (cont'd)

b. Report From the Compensation Sub-Committee

Chairman Morris reported that the sub-committee met on three perspective consultants and selected Fox Lawson and Associates. The sub-committee was most impressed with that firm. They will be working on this very soon. The Board may receive phone calls for information from them. Director Carter stated possibly we could meet with Mr. Fox as a group at the next meeting. The Board felt they would like to have him explain the process and then ask him questions.

Regarding the Audit Sub-Committee, Chairman Morris noted he had met with Lisa Schneider and the financial auditors last week. They will be doing an audit on the agency for about two to three weeks. They made some recommendations on reporting relationships and making sure that Ron Carlson is updated on internal auditing, etc. We may need to discuss further how the reporting relationship may evolve. They are recommending a more definite reporting line to the Audit Sub-Committee. We need to formalize this more and the sub-committee will meet with Director Carter on this. Mr. Lee noted there is someone at Utah State that is a very good internal auditor and suggested that we might talk with her. Mr. Morris stated the sub-committee should probably meet when the auditor's do their wrap-up meeting. Staff will set up a meeting with the auditors and the sub-committee at the end of the audit.

Chairman Morris indicated he felt it might be worthwhile to do another strategy retreat session as we have done in the past. We should look at doing another one in the Spring or Summer next year. The Board felt like this was a good idea.

8. Director's Report

Director Carter gave the Board a copy of the latest financial contribution report. Our gross revenue for FY 2006 was $140,589,836. There was brief discussion about forecasting of revenue and how to do it more accurately. Director Carter noted that we build our estimates on pricing, and we have been wrong in estimating the price. Mr. Scales stated that, because there has been so much volatility in the market, it is difficult to predict the revenues. Ms. Garrison stated that the bulk of our revenue comes from gas. Production has been consistent in the last few years. The difference we see is the unpredictability of pricing. Mr. McBrier noted that, on the real estate side, most of the revenue was on closing transactions. Mr. Ferry stated we just need to be prepared to answer why we are so far above the estimates. Chairman Morris stated to the Staff it was a job well done and kudos to the entire staff.

8. Director's Report (cont'd)

a. Block Planning Report

I. Discussion on Tabby Mountain

Mr. Kay Burton reviewed this with the Board. The Trust Lands Administration has recently completed a resource analysis, management plan, and financial impact assessment for the Tabby Mountain Block. To help keep this process on track, the Board set a FY 2006 incentive objective for the completion of this plan with an agency recommendation for a long-term management strategy. The following outlines the Staff's recommendations.

Besides the block being a valuable asset to the Trust, it is a valuable resource to its area and many stakeholders. The Trust and its Board have heard public comment on what we should or should not do with the block. These comments have generally supported the bias of the person or organization giving them and not how the Trust can best meet its fiduciary responsibilities.

A positive outcome to this planning process has been the opportunity for all voices to be heard and options presented. These comments have been valuable in formulating the following recommendations:

* Currently, the block is an underperforming asset with relatively high management costs. There have been several suggestions for possible ways to improve the block's financial performance; i.e, increasing revenue from wildlife. The Trust is engaged in working through these options. We recommend the further exploration of these options.

* Several of those commented "now is not the right time to sell Tabby". The "right time" to sell real estate is when the market is high. Currently, this real estate market is high. We recommend the Trust continue moving forward exploring all marketing opportunities.

* Public comment indicated many believe the block is state public land. The public-at-large does not understand the Trust's ownership or mission. We recommend the agency take appropriate action to assert our ownership and educate the public visiting the block.

8. Director's Report (cont'd)

a. Block Planning Report (cont'd)

I. Discussion on Tabby Mountain (cont'd)

* The Trust has a fiduciary responsibility to limit risks and manage the block in ways that preserve or enhance market value. This involves current good stewardship practices and may include additional signage, fencing, on-site management, gating, etc. In addition to continuing the Trust's existing stewardship practices, we recommend the Trust apply additional prudent and reasonable actions to limit asset risk and enhance value. Moving forward with this recommendation fulfills our responsibility to responsible manage the block's risks.

The management plan and accompanying financial analysis detailed current findings and probable outcomes based on historical trends and the block's resources. These analyses support the above recommendations. Additionally, these recommendations allow the Trust to best meet its fiduciary responsibilities.

Mr. Eardley stated it is going to be hard to convince the public that these are not public lands. Chairman Morris stated that. the longer Tabby Mountain goes without our enforcing the restrictions, etc., the more the public perception is re-enforced that it is an entitlement. Staff is stating that we will continue to say that we are marketing this parcel, but do these other things also by adopting a plan that says we are managing these for a profit. It is not private; and, if you want access, you have to pay a fee. If we don't do this, it will be perceived when we want to sell it that it is public land. Mr. Eardley stated we need to start with elected officials educating them that trust lands are not public lands. Mr. Brown stated we need to do what is recommended and also try to improve the public image. Director Carter stated he is not sure that is doable. We have to take away public privileges for us to do this. The public doesn't like that. Mr. Ferry noted that they don't understand the reasons; they only see the symptoms. They need to understand that we are doing this for the benefit of our beneficiaries. Mr. Ferry suggested that the above bullet points should be applied to all our block lands. We have the same issues on most of the blocks. Mr. Burton noted that the public needs some certainty - - this is the third or fourth plan on Tabby Mountain in the last decade.

Mr. Scales stated he knows this is a great property, but wonders if there is a way for it to get into the hands of those who could manage it for wildlife, etc. There was some discussion regarding the Division of Wildlife Resources or other natural resource agencies buying the property. The hold-up in dealing with this is that the state can only pay appraised value. That is different

8. Director's Report (cont'd)

a. Block Planning Report (cont'd)

I. Discussion on Tabby Mountain (cont'd)

than market value. Is there something down the road where we could identify legacy-type properties where they could pay market value for those properties? Director Carter stated he thinks we would have a difficult time convincing the legislature to pay "market" value in lieu of "appraised" value. They would have a difficult time differentiating them. Mr. Andrews stated that, if we could get a specialized appraiser for trophy properties, we may have a shot at getting it sold at appraised value.

Chairman Morris took comments from the public at this time. Reed Peterson stated he has hunted on the Tabby property for 30 years, and his grandkids are enjoying it also. He understands that we are there to make money on the trust lands, but he would like to see it left to the public so that it is not closed off. The land for people to recreate on is shrinking. He hates to see this block go to a private entity that would block the public out of this property. Chairman Morris asked Mr. Peterson what he pays to hunt this property? Mr. Peterson stated he pays for his hunting license, his taxes, etc. He would pay the Trust to hunt there if needed. It was asked what fee he would be willing to pay. Mr. Peterson stated $15-25 per hunter would be a nominal fee to hunt that ground.

Mr. Brown asked about the access issue that had previously been discussed with the Board on the tour of the Reed Ranch. Director Carter stated he thinks Wasatch County should probably handle this issue because Duchesne County took an action that is not within the best interest of Wasatch County. Val Draper, Chairman of the Public Lands Committee of Wasatch County, stated they have had discussions with Duchesne County on this issue. Mr. Draper thanked the Board for coming to Wasatch County. He appreciates working with Staff on easement problems, etc. They have a good relationship with Staff on these items. Their role as a county is to financially support what happens in the county. Whatever happens in the county, they have to send ambulances, fire support, etc. Historical and cultural resources use bring the public out on the Tabby property. This was public property before it was blocked together. There was multiple use on the property. A paper article stated there is no sale pending and there will be no sale in the future. He thinks they are hearing something different now. He has children and grandchildren and feels the responsibility of helping to educate them as the Board and Staff do with the schoolchildren of Utah. Education is more than bricks and mortar. If the Board makes a decision to put this land on the market, give the citizens of Utah the first opportunity to buy it.

8. Director's Report (cont'd)

a. Block Planning Report (cont'd)

I. Discussion on Tabby Mountain (cont'd)

They have been using it for years. They will go to bat with the legislature to buy it. He thanked the Board for coming to their county.

Natalie Gordon, of the Utah PTA, stated that the PTA has not taken an official position on what to do with the Tabby Block, but they have a resolution that states these lands should be managed for their intended purposes. She quoted a U. S. Supreme court case to support this position.

Mr. Jordan Henifer, the local Sage Grouse representative, stated he has knowledge of some birds that have used the Tabby Mountain area. Sage Grouse had used this area. There is an intrinsic value of this area. He encouraged the Board to take these wildlife considerations seriously and to look at other options other than development for the fact of wildlife values in Utah. They appreciate the access to research birds on this property.

Lanny Young, President of Red Creek Cattle Association, stated he is getting a different feeling from this discussion than from the meeting in Roosevelt. What about the other parts of the children's education - -water shed, where their food comes from, etc.? There are other important issue other than money.

Chairman Morris stated the Board appreciates the public input through this meeting and the other meetings. He noted that the Board had expressed no objection to the Staff's recommendations, and he encouraged Staff to move ahead with it.

b. Report on Approval of Completion of FY 2006 Incentive Objectives

Director Carter reviewed the completion of the FY 2006 incentive objectives with the Board as follows:

At the meeting of the Board of Trustees held 9 September 2005, incentive objectives were approved for Fiscal Year 2006. The objectives were categorized under 'Monetary Goals' and 'Non-Monetary Goals'. Traditionally, the Trust Lands Administration reports on their success (or failure) in meeting the goals during the first meeting of the new fiscal year.

8. Director's Report (cont'd)

b. Report on Approval of Completion of FY 2006 Incentive Objectives (cont'd)

The format for this report is as follows: The objective will be presented as approved by the Board at the beginning of the fiscal year; followed by an analysis of the tasks completed by the Administration to satisfy the objective and a statement by the Administration of its assessment of success or failure in meeting the objective.

MONETARY GOAL: Worth 50 percent of Total Bonus: $75,000

a. Objective: Achieve $76 million in net revenue after expenses, not including capital expenditures.

i. Measurement: As reported to the Board by the Trust Lands' staff, with the understanding that partial incentive can be achieved as follows:

Revenue Achieved	Bonus Received
$70 million	33 percent
$73 million	66 percent
$76 million	100 percent

ii. Worth 50 percent of Total Bonus: **$75,000**

Performance: Net revenues for FY 2006 set an all-time record, in excess of $127 million. All sections of the Administration performed exceptionally. Oil and Gas generated 53% more revenue than projected; Coal and Other Minerals generated 54%; Surface generated 47%; and Development generated 66%. The Total Assets exceeded $780 million at the close of FY 2006. Earnings consistent with FY 2006 and a reasonably performing stock market should allow the Administration to reach its goal of $1 billion by the end of FY 2008.

The legislative auditors were critical of income objectives where the goal was set at an amount below the previous year's actual earnings, as in this case. Regardless of the appropriateness of their complaint, it remains the case that even had this year's income objective been set at 15% above last year's actual revenue the Administration would have still exceeded that target by $20 million.

This objective was completed successfully.

8. Director's Report (cont'd)

b. Report on Approval of Completion of FY 2006 Incentive Objectives (cont'd)

2. NON-MONETARY GOALS:

A. Objective: Re-negotiate the Sage Point Logical Mining Unit Agreement

The Sage Point Logical Mining Unit agreement will expire in October 2005. The objective would be to re-negotiate the terms of this agreement to include four mineral leases which have been mined or which are currently being mined and/or held by terms in the agreement other than production by Canyon Fuel Company via the Soldier Canyon and Dugout Mines. All of these leases are not currently in the Sage Point Unit. The leased lands include an exchange tract acquired in the Grand Staircase/Escalante National Monument exchange and coal lands acquired in earlier exchanges. Including the lands in one agreement would allow the Administration to offer the entire land package including the leases upon which development in the Dugout Mine is currently underway to another operator if the current operator decides to mothball the Dugout Mine. The lands in the current Sage Point Unit would be difficult to market on their own for many years.

The Administration will complete the following tasks:

iii. Enter into negotiations in late-summer 2005.

iv. Present draft copy to Board at March 2006 Board Meeting.

v. Present final version of agreement to Board prior to execution by Administration by August, 2006, Board Meeting.

vi. Worth 6⅔% of the Non-monetary bonus: **$5,000**

Performance: This objective was completed before the Sage Point LMU expired in October 2005. The lessee needed to have a replacement agreement in place prior to the expiration of the Unit agreement. Consequently, staff was able to leverage a favorable agreement but needed to execute an agreement prior to an opportunity for board review. The agreement is consistent with all rules which authorize the Director to execute mineral contracts. The new agreement (Book Cliffs LMU) includes four mineral leases which have been mined and/or are currently being mined by Canyon Fuel Company via the Soldier Canyon Mine and the Dugout Canyon Mine and contains 8,970 acres. Not all of these leases were included in the Sage Point LMU agreement. The new agreement was negotiated by the Minerals Staff with the aid of the Agency Legal Staff and includes: Coal Leases ML 42648, ML42649, ML 44365, and ML 48435. The term of the new agreement is ten years and requires the lessee to annually make payments of $3.00 per acre and to annually pay an advance minimum royalty on the basis of the un-mined recoverable coal resources remaining within the unit each year. Payment of the advance minimum royalties shall constitute diligent operations on each of the leases during the term of the agreement. Production royalties will be paid at the rate of 8.0% upon each ton of coal mined from the unitized lands. The minerals staff estimates royalty income at $29.58 million from this unit. The Administration believes that this objective was satisfactorily completed.

8. Director's Report (cont'd)

b. Report on Approval of Completion of FY 2006 Incentive Objectives (cont'd)

2. NON-MONETARY GOALS:

B. Objective: Review selected surface program rules and promulgate amendments where appropriate.

Many of the surface program rules have been in effect for over a decade; indeed, most even pre-date the creation of the Trust Lands Administration in 1994. As a consequence of recent Board rulings on Special Use Lease Agreement (SULA) rental adjustments and the recent completion of the Development Group's business plan along with the opportunity that presents to further clarify the responsibilities between surface and development programs, the timing is right to conduct a comprehensive evaluation of program rules for the SULA (R850-30) and Sales (R850-80) programs. In order to meet this objective, the following tasks will be accomplished:

vii. Conduct a comprehensive programmatic review of the SULA rules by December 31, 2005.

a. Through consultation with private entities and other land-management entities, establish "best practices" for the following topics:

(1) Competitive solicitation
(2) Lease Terms
(3) Lease fee structures
(4) Lease assignments
(5) Lease rental reviews

b. Present results of consultation and draft rule amendments to the Board during its May 2006 meeting.

viii. By December, 2005, develop draft policy to determine if and when the Administration should do a market study on a lease which is being reviewed or if the CPI adjustment should be used. Upon adoption of the policy by the Board, apply market value adjustments to rental reviews beginning in January, 2006, where appropriate.

ix. Conduct a comprehensive programmatic review of sales rules by February 28, 2006.

a. Through consultation with private entities and other land-management organizations, determine "best practices" for the following topics:

(1) Competitive solicitation of applications
(2) Determination of what parcels to sell
(3) Determination of when to sell

8. Director's Report (cont'd)

b. Report on Approval of Completion of FY 2006 Incentive Objectives (cont'd)

(4) Marketing
(5) Closing costs, including reimbursement for appraisals and cultural resource investigations
(6) Timing of closing
(7) Sales format
  (a) Disclosure of sales price
  (b) Sale structure (sealed bid followed by oral bid)
  (c) Discretion of auctioneer to address unanticipated issues
(8) Contract terms
  (a) Contract period
  (b) Interest rate
  (c) Default provisions
  (d) Partial conveyances

b. Present results of consultation with suggested rule amendments at August 2006 board meeting.

x. Worth 13⅓% of the Non-monetary bonus: **$10,000**

Only item (viii) was completed. The Administration developed a policy on SULA reviews and presented it to the board. The board adopted the policy and the Administration began implementing the new policy January, 2006. None of the other provisions of this objective were completed. It is anticipated that they will be included in the FY 2007 incentive objectives.

2. NON-MONETARY GOALS:

C. Objective: Develop an agreement with DWR and sportsmen's groups that provides for fairer compensation for hunter access, including a strategy that enhances wildlife habitat and quality hunting

One of the components of the FY 2005 Board Objectives was to develop an agreement with DWR and sportsmen's groups to capture increased revenues on a selected land block where enhanced hunting opportunities could be demonstrated. The North Block of the La Sals was selected for study and found to have an estimated market value for deer and elk hunting of $95,000 per year, which contrasts to the ~$230,000 annual payment received from the Division of Wildlife Resources (DWR) for public hunter access to all unencumbered trust lands throughout the state. The agency came to realize that the task of developing an agreement with DWR and sportsmen's groups as a pilot project specific to this block was premature. Instead,

8. Director's Report (cont'd)

b. Report on Approval of Completion of FY 2006 Incentive Objectives (cont'd)

this politically sensitive issue should be addressed concurrently on statewide and s site-specific bases. In order to complete this objective, the agency will perform the following tasks:

xi. Quantify the wildlife values associated with SITLA properties throughout the state, with emphasis on blocks that are associated with high-quality hunting by December 2005.

xii. Perform a critical analysis of limited entry and CWMU hunting units throughout the state and identify how respective units interface with trust lands by December 2005.

xiii. Establish a working group with DWR and other selected stakeholders to set the stage for renegotiation of the Hunter Access MOU between SITLA and DWR (scheduled to expire in 2007) by March 2006.

xiv. Negotiate with the DWR and other stakeholders additional responsibilities associated with habitat improvements along with opportunities to maintain, if not enhance, quality hunting opportunities. Develop a formal process to identify, prioritize, plan, and fund specific projects by June 30, 2006.

xv. Worth 13⅓% of the Non-monetary bonus: **$10,000**

i) The agency contracted with an outside consultant to guide us through this difficult, but valuable process. The appraisal process considered factors of value including population, species, quality, and marketability of wildlife. Multiple complex valuation methods involving DWR hunting units by species, habitat and vegetation quality, and population density data bases, essentially revealed that trust lands harbor approximately 972,000 acres of high value big game wildlife habitat in its surface portfolio. The estimated market value of these properties ranges from $1.3 million to $2.3 million per year, depending on a wholesale versus retail marketing environment. A PowerPoint presentation was given to the Board on this process in May. As expected, the analysis revealed that most of the high wildlife values are attributed to the agency's blocks.

ii) Heretofore, the DWR has not made available reliable information regarding CWMU boundary descriptions. DWR shape files were finally obtained and evaluated relative to trust lands interface. The research revealed that nearly 15,000 acres of trust lands are embedded in CWMUs throughout the state, in spite of the ten-year memorandum of understanding between the two agencies prohibiting trust lands from being part of these

8. Director's Report (cont'd)

b. Report on Approval of Completion of FY 2006 Incentive Objectives (cont'd)

types of hunting programs. Particularly noteworthy was a CWMU held by a large landowner to the west of our Phil Pico block in Daggett County which was made up of 48% trust lands. The DWR has acknowledged this violation and since disqualified it as a CWMU.

iii) In early January of 2006, the agency hosted a meeting involving key stakeholders, economists, legislators, and other professionals to evaluate the valuation findings in item i) above. Subsequent to that discussion, the agency created a working group with DWR leaders to evaluate options. To date, this working group has met on four occasions. The DWR recently requested that the expiration date of the MOU be extended for another year. Upon consultation with the beneficiaries and board members assigned as liaisons to this project, the agency has denied that request. Both entities are now in the process of seeking input from other outside stakeholders on win/win options and outcomes.
The primary result of countless hours of negotiation between the Administration and DWR was the recognition that the agencies fundamentally disagree on the most basic issue: Are trust lands public lands with guaranteed access to the public for hunting, trapping and fishing, or are can SITLA control access for these activities?

iv) The agency supported and assisted in the drafting of HB 145, Rangeland Improvement Act, in the 2006 General Session. Among other things, the bill creates a state grazing advisory board that includes a representative from DWR. One of the functions of this board is to identify and leverage funding for various range improvement projects associated with grazing and wildlife. The TLA intends to work closely with this board in considering recommendations on both grazing and wildlife related range improvement projects associated with Trust Lands.

The TLA has memorialized a process whereby all range improvement projects must be evaluated and approved by the director. These improvement projects often involve DWR directly. Also, DWR has historically imposed its expectations for wildlife mitigation directly to TLA's mineral lessees and bypassed us as the landowner. The two agencies have developed an understanding this year whereby all wildlife mitigation requirements relating to mineral exploration and extraction will be coordinated through TLA rather than directly to the mineral lessee.

The Administration believes that it has satisfactorily completed this objective.

8. Director's Report (cont'd)

b. Report on Approval of Completion of FY 2006 Incentive Objectives (cont'd)

2. NON-MONETARY GOALS:

D. Resolve longstanding access issues on Phil Pico Block

The Phil Pico block, located along the Wyoming/Utah state line in Daggett County, surrounds several private inholdings. The private landowners have restricted access to the block for a number of years (one landowner has even included a portion of the block in his Cooperative Wildlife Management Unit). Although the agency doesn't necessarily want to develop public access on the block, it definitely wants to perfect access for administrative purposes and for the optimal use of our authorized permittees/lessees. In order to accomplish this objective, the following tasks will be completed:

xvi. Either develop a reciprocal access agreement:

a. Negotiate a reciprocal access agreement(s) with private landowners.

b. Analyze and determine the private landowners across whom TLA needs to acquire access.

c. Obtain permission from relevant landowners to cross private land in order to accomplish timber sale layout and planning for TLA's first Phil Pico timber sale.

d. Determine if there has been any trespass violations on the block.

e. Conduct field work on the property boundaries and locations of fences and gates.

f. Draft reciprocal easement(s) and present a convincing explanation of benefits of entering into a reciprocal agreement with relevant landowners; or,

xvii. Instigate legal proceedings for obtaining access if private landowner consent cannot be reached.

xviii. Present status and action plan for Board review by May, 2006, Board Meeting.

xix. Worth 6⅔% of the Non-monetary bonus: **$5,000**

Legal access has been established to and through the Phil Pico Block. This effort included extensive research and communication with adjoining landowners leading to the creation of reciprocal easements with six private property owners. This has not only added substantial value to our block, but it has also set the stage for a disciplined and effective timber management strategy for the overall block. A presentation was given to the Board at its June meeting in Roosevelt outlining this accomplishment. Specifically:

1) Research was done to determine the owners of private land inholdings in the Phil Pico Block and owners of adjacent exterior properties.

8. Director's Report (cont'd)

b. Report on Approval of Completion of FY 2006 Incentive Objectives (cont'd)

2) Landowners were contacted by letter and personal visit to discuss the benefits of entering into reciprocal easements.
3) Landowners who had a possible connection with our initial Phil Pico timber sale were targeted first. Since many of the landowners have harvestable timber on their respective properties that could piggy-back on this and future sales, they saw the wisdom in entering into reciprocal easements.
4) An investigation into possible trespass and fence and gate locations was also conducted. The few allegations of trespass were used to convince private landowners of the wisdom of entering into reciprocal easements.
5) The research also revealed that a CWMU held by the large landowner to the west of the block was in violation of our agency's hunter access agreement with DWR - 48% of the CWMU land base was found to be trust lands and part of this block. The DWR has since disqualified this as a CWMU.
6) The Trust Land Administration now has legal access to and through the Phil Pico Block from the east, north, and west.

The Administration believes that it has satisfactorily accomplished this objective.

2. NON-MONETARY GOALS:
E. Objective: Complete Planning Process for Tabby Block and Establish Management Strategy

The Tabby Mountain block was acquired by the Trust in a 1965 trade with the USFS. During the past decade, this block has been an emotionally charged landholding with relatively high maintenance costs. Due to this block's 28,500-acre size, its market value is considerable. Financially, the block is underperforming in relation to its potential market value. The agency has attempted numerous management plans for this block in the recent past, and a current management plan is nearing completion. The agency does not have a current long-term management strategy for this block. In order to accomplish this objective, the Administration will complete the following tasks by the August, 2006, Board Meeting:

- i. Complete a Tabby Mountain Block Plan
  - a. The Tabby Mountain Block Plan will evaluate and analyze strategies (options) for the block.
    - (1) Long-term retention of the block with recommendations for generating revenues in excess of obligations.
    - (2) Disposal of the block with analysis of options for disposal.
- ii. Draft recommendations will be presented for Board review during the early months of 2006.

8. Director's Report (cont'd)

b. Report on Approval of Completion of FY 2006 Incentive Objectives (cont'd)

iii A recommended final plan will be presented to the Board by the August, 2006, Board meeting.

iv. Worth 13⅓% of Non-monetary bonus: **$10,000**

This bock planning process has taken two years to complete. During that time, the Trust has held five public town meetings; allowed public comment during Board meetings; held numerous other meetings with county commissioners/councils and staff, state agencies, and other stakeholders. The Block Planner has made over a dozen site visits to the block including three site visits with Board members; two site visits with beneficiaries; and several additional site visits with Trust staff, appraisers, market analysts, engineers and public officials. The Trust has engaged realtors, brokers, and other interested parties for comment and input.

An interim report was given to the Board during the December, 2005, Board meeting. This report outlined the planning process, possible outcomes to the plan, and the plan's time requirements. This interim report also gave the Board a general idea of the block's resources, strengths, weakness, opportunities, and threats.

A completed management plan was distributed to the Board, Trust senior management, and the public school beneficiaries at the December, 2005, Board meeting. A financial analysis was distributed to the Board, Trust senior management, and the public school beneficiaries at the February, 2006, Board meeting. This financial report analyzed several management strategies including estimating the financial results of holding the block, as opposed to selling or developing it.

The latest site visits made during June, 2006, completed the task of having all board members visit the block. The Board conducted its June, 2006, and August, 2006, Board meetings in Roosevelt and Heber City respectively allowing area stakeholders to address the Board with their concerns.

With the management strategy presented to the board during the August 2006 meeting, the Administration believes that it has satisfactorily completed this objective.

8. Director's Report (cont'd)

b. Report on Approval of Completion of FY 2006 Incentive Objectives (cont'd)

2. NON-MONETARY GOALS:

F. Objective: Develop Opportunities to Reduce Costs, Increase Revenues, and Better Manage OHV Use on Trust Lands

The $1.50 surcharge on OHV registrations has set the stage for better management and curbing resource degradation attributed to increased OHV use of Trust Lands. The accomplishment of the Board's 2005 objective to develop a plan for the prudent expenditure of these monies was significant. However, additional opportunities to reduce costs to the agency and increase revenues for the beneficiaries may exist. In pursuing other opportunities, the following tasks will be performed:

i. Evaluate the potential of offsetting Agency personnel costs attributed to OHV management through the use of dedicated OHV surcharge funds. Win support from legislators, the state Division of Parks and Recreation, and the OHV community in this effort.

ii. Adjust current fees that the agency has taken to receive compensation for commercial OHV events on trust lands to bring them up to market.

iii. Develop appropriate changes to legislation to address ability of the Administration to regulate OHV use on trust lands.

iv. By August, 2006, report to Board on analysis of opportunities to reduce costs and generate revenues from OHV activities on trust lands.

v. Worth 6⅔% of Non-monetary bonus: **$5,000**

(i) The potential of using funds generated by the $1.50 OHV surcharge to offset personnel costs was carefully considered by Agency management. The following points were considered in this evaluation:

- **Personnel costs attributed to OHV management on trust lands during Fiscal Year 2006, to this point, total $18,946.30. Using the OHV surcharge funds to offset these costs would result in a cost savings to the agency.**
- **The Administration could likely build enough support within the legislature and the OHV community to make this change.**
- **The Administration has historically been a self-sufficient agency, not relying on tax revenue to fund agency operations. Offsetting personnel costs using the OHV surcharge funds would represent a shift in this self-sustaining philosophy and would mean that tax revenue would now be used to fund regular agency operations.**

8. Director's Report (cont'd)

b. Report on Approval of Completion of FY 2006 Incentive Objectives (cont'd)

After carefully evaluating these points, it was determined by the Director and Agency management that it would not be prudent to pursue the use of the OHV surcharge funds to become a part of the agency's operating budget in order to offset personnel costs. It was felt that this fundamental shift in philosophy from being an entirely self-sufficient agency to becoming an agency partially dependent on tax revenues was not worth the extra cost savings that would potentially be realized.

(ii) A number of types of commercial OHV events and OHV related activities are held on trust lands, including the following:

- **Competitive Events (i.e. rock-crawling events, motorcycle races)**
- **Organized Group Events (i.e. Easter Jeep Safari)**
- **Commercial OHV Tours**

Typically, a Right of Entry Permit is issued for these types of events, with terms varying from one day for a competitive event to a full year for commercial OHV tour permits. Although there have been some rough guidelines, previously there has not been an official policy for the fees to be charged for these types of events. Typically the fees are left to the discretion of the resource specialist responsible for issuing the permit. The fees charged are often quite small, especially in comparison to the financial benefit that the commercial entities utilizing the trust lands were deriving from the use.

In evaluating what appropriate fees may be for OHV activities on trust lands, the following were considered:

- **What types of commercial events are currently being held on trust lands?**
- **What do other land management agencies charge for similar uses of their lands, and how does this compare to what the Trust Lands Administration typically charges.**
- **Any new system that is implemented needs to be simple and not require too much staff time to issue and administer the permits.**
- **Need to consider the potential effects of fee increases on our clients. Will they continue to hold events on trust lands if the permit fees become too expensive? If so, the Agency would ultimately lose revenue. Perhaps permit fees that were too expensive would lead some to risk holding unauthorized events, leading to more unmanaged use and resource degradation.**

8. Director's Report (cont'd)

b. Report on Approval of Completion of FY 2006 Incentive Objectives (cont'd)

- **The goal of increasing revenue from OHV events needs to be balanced with the potential for resource degradation. We need to exercise caution when issuing permits for OHV events, considering the potential revenue versus the potential resource impacts. A successful commercial OHV event can bring national exposure to a previously relatively unknown area, resulting in far reaching, undesirable impacts to the land.**

Upon consideration of these factors, we propose that the following fees be implemented on a trial basis for commercial OHV events held on trust lands. After a trial period of 1 year, the fees will be reevaluated and adjusted if deemed necessary.

- **Minimum Fee: $400.00, plus standard application and processing fees.**
- **Commercial Outfitters – 3% of gross receipts**
- **Competitive Events – 3% of gross receipts (including gate receipts) or $4 per participant per day, whichever is highest.**
- **Organized Group Events - $4 per participant per day**
- **Adjust fees for the amount of time spent on trust lands.***
  1% - 5% on trust lands – 80% fee reduction
  5% - 60% on trust lands – 40% fee reduction
  60% - 100% on trust lands – full fee assessed
  *** No fee would be reduced lower than the minimum fee established above.**

These proposed fees are largely based on the current fees that the Bureau of Land Management charges for similar activities and are higher than what the Trust Lands Administration would typically charge. We feel that having a standardized fee schedule such as this will help eliminate confusion amongst permit holders, help ensure a climate of consistency and fairness, and will result in increased revenues to the trust.

During this past fiscal year, approximately $13,000 in revenue was generated from right of entry permits issued for OHV-related events. Another $11,400 was generated from non-motorized commercial recreation uses of trust lands. Therefore, a total of approximately $24,400 was generated from permits issued for commercial recreational use of trust lands. Although difficult to predict, the revenues generated from commercial recreation uses of trust lands, upon implementation of the proposed fee changes, should increase substantially. For example, the permit issued for the 2006 Annual Easter Jeep Safari in Moab generated $4,128.00 in revenue to the Trust. If the proposed new fee schedule had been applied to this same event, nearly $17,000 in revenue would have been generated. This amount by itself is more than the total amount of revenue generated by OHV-related events on trust lands during the past fiscal year.

<u>8.</u> <u>Director's Report (cont'd)</u>

<u>b.</u> <u>Report on Approval of Completion of FY 2006 Incentive Objectives (cont'd)</u>

In addition, two other measures are in the process of being implemented that will increase revenue to the trust from OHV activities. These are (1) perfecting easements on roads and trails that are open to OHV use and part of organized trail systems, and (2) leasing appropriate areas of trust lands for OHV use.

Since the $1.50 OHV surcharge came into effect, the Agency has used a significant portion of these funds to perfect easements on existing roads and trails that have an OHV nexus. These easements have been issued to the county that has jurisdiction over the route and have been issued both as part of the recently adopted Board policy and rule-based process for the settlement of road claims prior to disposal of a property, and for developed trail systems. To this point, OHV related easements have been issued to Emery, Garfield, Iron, Kane, San Juan and Uintah Counties, with others currently pending. These easements have resulted in approximately $175,000 of additional revenue to the trust.

The demand on these OHV funds by many counties who desire to perfect easements on OHV routes is growing to the point that it is beginning outpace the budgeted amount of OHV funds available for this purpose. Therefore, in the 2006 legislative session, the Administration successfully supported Senator Tom Hatch in creating a $75,000 one-time appropriation to State Parks, which is earmarked to perfect easements primarily on trust lands with an RS2477 nexus. This money will be available during Fiscal Year 2007 for counties to use to obtain additional OHV related easements on trust lands, which will boost trust lands revenues, along with clearing up many outstanding road claim issues.

Another untapped source of revenue from OHV use on trust lands is the leasing of lands for OHV purposes. The agency is currently working on a lease arrangement with San Juan County on a parcel of land that is already a popular OHV riding area and already heavily impacted. Under this arrangement, San Juan County will lease the land in order to allow the use to continue, however the County will also be responsible for managing the use, which has historically been largely unmanaged. The County will pay a portion of the annual lease rental and portion of the OHV surcharge funds will also be used towards the lease rental. Although details of the lease are still being worked out, this lease would potentially generate annual revenue of between $48,000 and $56,000 for the trust. We feel that this is a great example of a win-win situation for the County, the Agency, and OHV users where all of our interests are being realized. The Agency will now receive revenue from a parcel that was previously being used for free, the County will be able to provide a much wanted service to its citizens, and OHV users will gain an authorized and appropriately managed area to recreate in. It is our belief that many similar situations exist throughout the state where the Agency can receive revenue from an existing use and provide more opportunities for OHV recreation in appropriate areas.

8. Director's Report (cont'd)

b. Report on Approval of Completion of FY 2006 Incentive Objectives (cont'd)

(iii) There is a discrepancy in the Utah Code regarding the ability to regulate OHV use on trust lands and other state lands. Utah Code 41-22-10.1(1) states as follows:

Currently registered off-highway vehicles may be operated on public land, trails, streets, or highways that are posted by sign or designated by map or description as open to off-highway vehicle use by the controlling federal state, county, or municipal agency.

This statute suggests that lands are closed to OHV use unless they are posted as open. However, Utah Code 41-22-12 states as follows:

(1) Except as provided in Section 63-11-17, federal agencies are encouraged and agencies of the state and its subdivision shall refrain from closing any public land to responsible off-highway vehicle use. (2) A person may not operate and an owner of an off-highway vehicle may not give another person permission to operate an off-highway vehicle on any public land which is closed to off-highway vehicles.

This statute seems to suggest that some type of affirmative government action is required to close lands to off-highway vehicle use. We feel that the Administration needs to preserve the option to close sensitive areas to OHV access, if necessary. Therefore, the Administration, along with the Department of Natural Resources, supported H.B. 361, sponsored by Representative Wheeler, which was designed to resolve this inconsistency in the code.

This bill would change Utah Code 41-22-12 to the following:

(1) Except as provided in Section 63-11-17, federal agencies are encouraged and agencies of the state and its subdivision shall [~~refrain from closing any public land to~~] ***pursue opportunities to open areas for*** **responsible off-highway vehicle use. (2) A person may not operate and an owner of an off-highway vehicle may not give another person permission to operate an off-highway vehicle on any public land which is closed to off-highway vehicles.**

This amended language would correct the current inconsistency in the two statutes and do so in a way that is proactive in our efforts to create opportunities for OHV access where appropriate.

The bill passed out of committee on a split vote. However, at no fault of the Trust Lands Administration, the bill never came to a vote before the full House due to lack of time. We do believe, as does the Department of Natural Resources, that there is enough legislative support to pass a similar bill during the next legislative session.

8. Director's Report (cont'd)

b. Report on Approval of Completion of FY 2006 Incentive Objectives (cont'd)

(iv) The Administration has provided the material listed in the objective in this report

The Administration believes that it has satisfactorily completed this objective.

2. NON-MONETARY GOALS:

G. Create an Opportunity to Validate "Cotter" Decision Regarding Access Across Federal Lands to Inheld Trust Sections

Approximately 25 years ago a mineral lessee (Cotter) on trust lands desired to develop a mining operation on a school section that was located within a wilderness study area. The Bureau of Land Management refused to allow access into the school section. Cotter and the agency sued the federal government and the result was a Utah District Court ruling that confirmed that the United States had an obligation to provide economically viable access to school sections, even if they were inheld within a wilderness study area. Since that time; no serious effort has been made to assert this court-recognized right of access. Federal managers do not appear to feel any serious obligation to provide access. It would be valuable to have this right re-confirmed by the courts.

i. Identify parcels of inheld trust lands within federal wilderness study areas ("WSAs") presenting factual scenarios that could be used as test cases to determine the viability of the Cotter decision.
ii. Research legal theories concerning access to trust lands in WSAs, specifically questions of standing and the appropriateness of pursuing mandamus.
iii. Collaborate, where appropriate, with lessees that have valid development proposals within wilderness study areas.
iv. If appropriate, pursue legal action to test whether Cotter ruling would be upheld.
v. Worth 13⅓% of Non-monetary bonus: **$10,000**

i. **The agency conducted a review of all trust lands mineral leases on trust sections within WSAs. Approximately 29 mineral leases are located on trust lands within WSAs. A number of these have existing road access on "cherry-stemmed" roads, so the Cotter decision does not come into play. Approximately half of the leases have been issued in the last 18 months or so, and the agency has not been able to identify any active proposals for drilling on lands that are not currently accessible. One reason for this, in discussing the issue with the lessees, has been that surrounding BLM lands within WSAs are not available for lease. In contrast to the Cotter situation, which involved uranium leases, oil and gas companies are typically not willing to drill on an inheld state section where they cannot access the surrounding**

8. Director's Report (cont'd)

b. Report on Approval of Completion of FY 2006 Incentive Objectives (cont'd)

lands. For this reason, road access is less of an issue than the status of the surrounding lands. As described below, this led the agency to focus on surface development as a better means of testing Cotter.

ii. **The legal group undertook substantial legal research concerning standing and the availability of mandamus and other remedies in pursuing access across BLM lands. This research was completed by memo dated April 10, 2006. The basic conclusion was that an action may lie in either mandamus or under the federal Administrative Procedures Act (on the basis that federal action was unreasonably delayed or denied). However, as a prerequisite of seeking such remedies, there must first be attempted compliance with BLM's process for filing of a right-of-way application, including an identification of the purpose for which access is sought.**

iii. **As noted above, the agency was not able to identify mineral lessees with pending development proposals on trust lands in WSAs that did not already have road access. It was able to identify one situation where, if the Board agrees from a policy standpoint, the facts support a "Cotter" type challenge. This involves a trust section in the Spring Creek Canyon area east of Kanarraville in Iron County. The trust section is separated from a public road by approximately 300 feet of BLM WSA, across which BLM has closed a preexisting road. The agency hired a consultant whose initial evaluation was that the trust section would support high-end residential development if access could be developed.**

iv. **As noted above, the agency must pursue the BLM easement process as a prerequisite for filing legal action. The agency has had an easement application on file for some time with BLM for the section. Staff is in the process of updating this application to indicate the proposed use of residential access.**

The Administration believes that it has satisfactorily completed this objective.

2. NON-MONETARY GOALS

H. Objective: Establish a Strategy to Deal with Oil Shale Properties

The development of oil shale is increasingly important in the establishment of a national energy policy. The Administration has significant oil shale resources, but perhaps should examine our current position to see if we can be better situated to take advantage of the current increase in interest. The objective would be to develop a strategy to improve the Administration's opportunities with regards to oil shale leasing:

8. Director's Report (cont'd)

b. Report on Approval of Completion of FY 2006 Incentive Objectives (cont'd)

i. Withdraw oil shale resources from the Over-the-counter leasing process.
ii. Provide draft policy on oil shale leasing using OBA and/or competitive process to Board by the March, 2006, meeting.
iii. Conduct geological and topographical review of trust lands in Uintah County and provide report to Board suggesting land-tenure adjustments to improve our oil shale development position. Presentation will be made to Board by the August, 2006, meeting.
iv. Conduct geological review of trust lands in the Southern Book Cliffs to determine leasing potential.
v. Draft proposed revision to Utah Code 53C-2-414 and draft corresponding rule for promulgation.
vi. Worth 13⅓% of Non-monetary bonus: **$10,000**

i. Utah trust lands were withdrawn from over-the-counter leasing in the third quarter of 2005 and remain withdrawn. Leasing of oil shale on trust lands is accomplished through the OBA process (requires Board approval) and in limited cases (small isolated parcels) by competitive bid.

ii. This process was presented to the Board in February 2006 and will be presented as a draft policy at the August meeting. The Minerals Group has complied with the proposed process during the past six months. This coupled with the re-drafting of our rules regarding oil shale and tar sands has effectively allowed the group to increase revenue from these two commodities from about $300,000.00 in FY 2005 to $1,010,000.00 in FY 2006.

iii. A memo will be provided at the August meeting which summarizes the staff recommendations for oil shale land acquisitions in Uintah County. It seems unlikely, given the BLM position on exchange of mineral lands in Utah and the fact that the federal leasing program for tar sands and oil shale remains undeveloped, that exchanges for these resources are viable alternatives. It is more likely that unitization of federal and trust lands in Utah may be a more practical approach to the problem.

iv. The agency contracted with a consulting geological firm based in Salt Lake City to provide compilation and analysis of the agency data base on minerals for the Book Cliffs Block. This block lies largely in Grand County, but parts of it are located in Uintah County. The block contains about 100,000 acres of mineral lands. Estimate of contained oil in the Mahogany Ledge Member of the Green River Formation total 1 billion bbl of oil.

8. Director's Report (cont'd)

b. Report on Approval of Completion of FY 2006 Incentive Objectives (cont'd)

Using a cutoff grade of 20 gallons per ton indicates that there are 1.6 million bbl of recoverable resource. If we assume 100% recovery of this resource, production would equate to 2.5 days of production from the Canadian Athabasca deposit where average grade is 27.3 gallons per ton. The Mahogany Ledge Member averages 4 feet in thickness in the Book Cliffs Block and is beneath 400 feet of cover. The 40:1 stripping ratio renders the resource out of economic reach of open pit mining techniques.
The staff recommends the following:

2. **Pursue exploration and development of conventional oil and gas target on the block.**
3. **Continue to pursue development of oil sands in the PR Springs area of the block.**
4. **Evaluate, test, and pursue exploration and development of coal bed methane potential of the block.**
5. **Evaluate and pursue for the exploration, development, and production from the Neslen coal zone.**

v. Staff recommends repeal of this statute.

The Administration believes that we have satisfactorily completed this objective.

2. NON-MONETARY GOALS:

I. Objective: Implement a "State-of-the-Art" Real-Estate Project Accounting System

Significant effort was put forth in FY2005 to review the structure and effectiveness of the Planning and Development Group. One of the products of that review was a recommendation to improve the cost-accounting abilities of the group.

i. Select and implement a state-of-the art project accounting system using or developing "best practices" real estate software. The system will have real-time reporting capabilities for:

a. Capital and revenue (budgets, forecasts, actual vs. budget)
b. Project accounting and cost control, and
c. Allocation of historic costs to subdivided parcels.

ii. Produce project accounting reports for all major development projects by the end of the fiscal year.

iii. Worth 13⅓% of Non-monetary bonus: **$10,000**

8. Director's Report (cont'd)

b. Report on Approval of Completion of FY 2006 Incentive Objectives (cont'd)

Our original intent was to buy off-the-shelf project management software to implement. After much investigation, we found that the available packaged software would have to be reworked significantly to work with FINET and Trust Lands' and beneficiary accounting and land inventory systems. These packages had excellent project specific tracking, but fell short in working with aggregate data over a number of projects. The decision was made to build a new system in-house as an additional module in Trust Lands Business System.

Currently the basic framework of the system has been built. Historic data regarding project information (125+/- projects), actual project revenues and investments, past pro formas and updated projections have been converted and loaded and a first set of reports (9) has been designed. These reports focus on management information at a high level of summarization, including actual investment and revenue and current forecasts compared to pro formas and projections, on a project level as well as on a total annual budget level. They also provide project manager support for day to day operations. Initial board-level reports for major projects are being published.

Additional enhancements will be pursued over the next year. These will include improving the capability to automatically download data from FINET (State of Utah accounting system that records our investments), easing the process for allocation of costs to subdivided parcels, the development of more user-friendly input screens for projections and pro formas and the addition of various functions that will aid in day to day tracking of procurement and construction contracts.

The process has been conducted with input from our legislative budget analyst to make sure that the product satisfies the intent language from our appropriation sub-committee.

The Administration believes that it has satisfactorily completed this objective.

2. NON-MONETARY GOALS:

J. Objective: Selection of In-lieu Minerals for South Hill Creek Extension Minerals

Evaluate Trust minerals in South Hill Creek Extension and proposed federal in-lieu replacement minerals; pursue negotiated transaction with Ute Tribe for development of selected lands; file selection applications with DOI, as follows:

i. Preliminary Items: Enter non-disclosure agreement (NDA) with Ute Tribe to obtain confidential seismic and geologic information; complete legal description and encumbrance package for trust minerals to be relinquished; evaluate legislative issues.

8. Director's Report (cont'd)

b. Report on Approval of Completion of FY 2006 Incentive Objectives (cont'd)

ii. Geologic Evaluation: Obtain professional geologic evaluation of trust minerals and selected minerals; develop geologic support for equal-value determination; develop alternate selection package if negotiations with Tribe are unsuccessful.
iii. Negotiation with Tribe: Negotiate acceptable lease/development agreement with Ute Tribe for development of selected minerals; bring to Board for preliminary approval prior to end of FY 2006 or pursue alternative selection package if negotiations are unsuccessful.
iv. Selection Application: Develop and file selection package with BLM for selected minerals under Tribal or other lands (depending on results of Tribal negotiations).
v. Worth 10% of Non-monetary bonus: **$7,500**

i. The Trust Lands Administration entered into a non-disclosure agreement (NDA) with respect to the South Hill Creek extension on October 19, 2005. A legal description and encumbrance package was completed shortly thereafter for the trust lands to be relinquished. The legal group also completed a detailed legislative analysis by memo dated February 8, 2006.

ii. The agency obtained professional geologic evaluations of trust minerals and selected minerals from, respectively, Cawley, Gillespie & Associates and Klipping & Associates, and utilized these reports in finalizing the selection package and in providing BLM with geologic support for an equal value determination.

iii. The agency negotiated an acceptable preliminary lease/development agreement with the Ute Tribe which was executed in early 2006. This agreement was discussed with the Board at a previous Board meeting, but was not formally submitted for preliminary Board approval as set forth in the objective due to confidentiality considerations.

iv. The formal selection documentation was filed with the BLM in mid-summer.

The Administration believes that it has satisfactorily completed this objective.

8. Director's Report (cont'd)

b. Report on Approval of Completion of FY 2006 Incentive Objectives (cont'd)

The Board discussed these briefly and then went into closed session.

Lee / Eardley. Unanimously approved.

> "I move we go into closed session for the purpose of discussing the character and competence of individuals."

Roll Call:

Lee - - yes	Ferry - - yes
Eardley - - yes	McKeachnie - - yes
Scales - - yes	Brown - -yes
Morris - - yes	

The Board went into closed session at 1:58 p.m. Those in attendance were Board members and Director Carter. Director Carter left the closed session at 2:20 p.m. The Board returned to open session at 2:35 p.m.

McKeachnie / Lee. Unanimously approved.

> "I move we approve the completion of the incentives as noted by Staff and approve a total distribution of $142,000."

Roll Call:

Lee - - yes	Ferry - - yes
Eardley - - yes	McKeachnie - - yes
Scales - - yes	Brown - -yes
Morris - - yes	

8. Director's Report (cont'd)

c. Consideration of Approval of FY 2007 Incentive Objectives.

Director Carter gave the Board an amended copy of the proposed FY 2007 Incentive Objectives and reviewed it with them as follows:

FY 2007 INCENTIVE OBJECTIVES

1. SHORT-TERM GOAL: Worth 70% of Total Bonus: $105,000

A. Revenue Component: Recognizing that the majority of the income potential in any given year is dependent upon prices for natural gas, the revenue target will be a sliding scale relative to the average price of natural gas (using the Uinta Questar Pipeline QPC as the market metric), minus the operating budget (not including capital expenditures) appropriated by the legislature for Fiscal Year 2007, as presented below:
Worth 50% of Short-Term Goal Bonus: $52,500

i. Measurement: The average price of natural gas will be determined by summing the first of month contract price for gas for each month beginning July 2006 and ending June 2007, and dividing the sum by twelve. The appropriated budget for FY 2007 is $8,739,600. Net revenues as presented in the following table:

Average Natural Gas Price	**Revenue Target**
Less than $5 per MCF	$ 75,731,785
Between $5 per MCF and $6 per MCF	$ 98,831,785
Between $6 per MCF and $7 per MCF	$106,681,785
Between $7 per MCF and $8 per MCF	$114,681,785
Greater than $8 per MCF	$122,481,785

All of the eligible bonus will be paid for reaching or exceeding the Revenue Target. Partial bonus will be earned for reaching proportionate parts of the Revenue Target. Reaching 75% of the Revenue Target will authorize 33% of the eligible bonus; Reaching 90% of the Revenue Target will authorize 66% of the eligible bonus.

8. Director's Report (cont'd)

c. Consideration of Approval of FY 2007 Incentive Objectives (cont'd)

B. Production Component: Increase production/income in the following specific programs/activities.
Worth 50% of Short-Term Goal Bonus: $52,500

i. Planning and Development Group (PDG) Metric
The performance goal will be "met" if more than $5,000,000 of capital (land value and cash) is employed into recurring revenue transactions in FY2007.
"Employed" means that:
1. in the case of a ground lease, the ground lease has been executed;
2. in the case of an investment venture, a closing of the venture formation has taken place (ie. funding, contribution of land, etc.)
In a ground lease setting, the "capital employed" shall include land value and capital investment to the extent that the same is included in the base calculation from which the first full year's rental is calculated.
In an investment venture setting, "capital employed" shall include land value and capital investment in connection therewith to the extent that the same is given value in the capital formation of the venture.
Worth 40% of Production Component Bonus: $21,000

ii. Surface Group Metric
a. SULA Program: Through seeking new agreements, adjusting rental on existing agreements, and other practical means, increase gross program revenues by 5% to $2,226,250.
b. Sales Program: Through marketing and other actions increase sale returns by 35% over appraised value on those parcels sold at public, competitive auction.
c. Easement Program: Increase 3-year average easement program revenue by 15% to $425,135.
Worth 20% of Production Component Bonus: $10,500

iii. Hard Rock/Coal Group Metric
a. Coal Program: Increase revenue by 90% to $9,000,000.
b. Other Minerals: Increase revenue (excepting uranium mine bonus bid of $1MM) by 7% to $2,300,000.
Worth 40% of Production Component Bonus: $21,000

8. Director's Report (cont'd)

c. Consideration of Approval of FY 2007 Incentive Objectives (cont'd)

2. LONG-TERM GOAL: Worth 30% of the Total Bonus: $45,000

A. SULA program

Many of the surface program rules have been in effect for over a decade; indeed, most even pre-date the creation of the TLA in 1994. An evaluation was scheduled for FY 2006. This earlier effort was not completed for several reasons. However, one component of the assignment, the development of a board policy regarding Special Use Lease Rental Reviews, was accomplished. This new policy clarifies the application of CPI vs formal appraisals in conducting reviews. Moreover, the new policy creates the option of shortening the terms of leases when appropriate. This new option has been applied to several leases already, creating more flexibility on how TLA properties can be leveraged for highest and best use when opportunities arise. In this fiscal year the agency needs to complete the evaluation of the entire SULA rule set and propose necessary modifications.

In order to fully meet this extended objective for FY 2007, the following tasks will be accomplished:

- Conduct a comprehensive programmatic review of the SULA rules by December 31, 2006.
  Through consultation with private entities and other land management entities, establish "best practices" for the following topics:
  - a. Competitive solicitation
  - b. Lease Terms
  - c. Lease fee structures
  - d. Lease assignments
  - e. Lease rental reviews

ii. Present results of consultation and a draft SULA leasing policy to the Board during its May 2007 board meeting.

iii. Present revised SULA program rules for board concurrence at the August 2007 board meeting.

Worth 9% of the Long-term goal - $4,000

8. Director's Report (cont'd)

c. Consideration of Approval of FY 2007 Incentive Objectives (cont'd)

B. Sales program

As with the SULA program, the traditional sales program has functioned under a rule set that was developed a number of years ago, and which may not be attuned to current 'best practices'. It is important that sales processes provide for disciplined evaluation and decision-making steps since sale decisions are typically ultimate disposition actions. In completion of this objective the Administration will perform the following tasks:

i. Determine 'best practices' for the following procedures
   a. Competitive solicitation of applications
   b. Determination of what parcels to sell
   c. Determination of when to sell
   d. Marketing
   e. Closing costs, including reimbursement for appraisals and cultural resource investigations
   f. Timing of closing
   g. Sales format, including the following topics
      A. Disclosure of sales price
      B. Sale structure (sealed bid followed by oral bid
      C. Discretion of auctioneer to address unanticipated issues
   h. Contract terms, including the following topics
      A. Contract period
      B. Interest rate
      C. Default provisions
      D. Partial conveyances

ii. Present results of consultation and a draft sales policy to the Board not later than its May 2007 meeting

iii. Present revised sales program rule for board concurrence at the August 2007 board meeting

Worth 9% of the Long-term goal - $4,000

8. Director's Report (cont'd)

c. Consideration of Approval of FY 2007 Incentive Objectives (cont'd)

C. Determine economic and practical feasibility of engaging in structural improvement opportunities.

Develop a long-term strategy/business plan to evaluate the appropriateness and to guide SITLA investment in vertical improvements (buildings).

i. Obtain Board approval of the underlying conceptual basis and details to guide this plan. The strategy will address issues such as the following:
   a. Should investments be limited to SITLA-owned property and/or is non-SITLA-owned property acceptable - - and in what circumstances?
   b. Should our participation be 'passive' or 'active', and define our concept on whichever participation model we adopt;
   c. Examine issues of investment timing and sources of capital;
   d. What should be the use of, and structure for, construction and permanent loans to finance the vertical improvements;
   e. Compare the advantages of vertical improvements versus non-subordinated ground-lease alternatives on SITLA-owned properties;
   f. Examine agency and board attitudes towards an ultimate exit strategy;
   g. Evaluate and propose consistent financial analysis rules;
   h. Review appropriate beneficiary issues - - i.e. advisability of asset category, capital availability, etc.;
   i. Determine and address potential legal issues regarding investment category and sources and uses of capital (i.e., constitutional-statutory);
   j. Address any accounting issues associated with investment category/strategy;
   k. Conduct programmatic review of historic investments (ie Coral Canyon; Ft. Pierce, etc);
   l. Identify, catalogue and evaluate known future opportunities (ie MP 13, future SITLA office, etc.)

ii. Present preliminary discussion to Board in April 2007.

iii. Present final plan to board in August 2007.

Worth 20% of the Long-term goal - $9,000

<u>8.</u> <u>Director's Report (cont'd)</u>

<u>c.</u> <u>Consideration of Approval of FY 2007 Incentive Objectives (cont'd)</u>

D. Complete negotiations to acquire other federal land for our inheld mineral estate in the Hill Creek extension of the Uintah/Ouray Reservation.

The Agency has a unique opportunity within the Tribal lands known as the Hill Creek Extension in Uintah/Grand Counties to make an in-lieu selection with the BLM based on a 1956 federal statute specific to this parcel. The process to move the SITLA minerals from scattered sections in Grand County to blocks of land in the Uintah County portion of the Extension commenced in 2006. Preliminary evaluations have been done in conjunction with the Ute Tribe and agreement has been reached on the parcels to be selected. The objective for 2007 would be to diligently pursue the selection with the BLM as follows:

i. The selection is initially proposed as an acre-for-acre, equal value selection. Provide information to the BLM to support the equal value concept. It is unknown whether or not a BLM appraisal will be necessary. If so, provide all necessary information requested to the BLM to support our position to accomplish a successful selection.

ii. Work with the Ute Tribal members and other affected parties to support the application with the appropriate Washington, DC, officials to accomplish the selection.

iii. Work diligently to complete the selection before June 30, 2007. It is unknown at the present time if there will be opposition to this application by any outside parties.

iv. Negotiate a drilling commitment with an industry lessee on the selected lands in an OBA format as soon as the lands are transferred to SITLA ownership and bring it to the Board for approval.

Worth 20% of the Long-term goal - $9,000

E. Investigate the potential to participate in the oil and gas industry beyond the leasing stage

Oil and gas is in high development in Utah. Many new companies are beginning to work in Utah and the companies here are expanding their drilling and production activities. The Agency currently markets its oil and gas under the operator's sales contract. There may be an opportunity to increase the revenue coming to the Trust by marketing our commodity differently. After an examination of options, the Board could decide to continue to market as we do currently or move to a more aggressive strategy. The following are items that should be reviewed by the Board and guidance given the Agency.

8. Director's Report (cont'd)

c. Consideration of Approval of FY 2007 Incentive Objectives (cont'd)

i. Provide a report to the Board by at the April meeting on the feasibility of taking product in kind and marketing our gas and oil ourselves through a third party rather than through the operator's contract.
ii. Provide a report to the Board at the April meeting that examines the advisability of participating in the drilling of oil and gas wells and whether or not that meets the Administration's fiduciary responsibility.
iii. Review and report to the Board whether or not there are possibilities for the Agency to participate in pipelines being proposed within the state of Utah as a revenue-producing center at the August meeting.
iv. Review and report to the Board at the August meeting on the status of the salt dome property. This is presently not on any existing pipeline infrastructure but due to storage filling up nationwide, there may presently be some interest, either to large commercial operations in the area or a more general storage operation, to use this property.

Worth 20% of the Long-term goal - $9,000

F. Produce an updated Public Relations presentation/video to deliver our message to appropriate audiences

When the Trust Lands Administration was created in 1994, it was partially as a result of a significant public relations campaign conducted by the beneficiaries to educate various constituencies on the role of the trust land grant. In March of 2001, a survey was conducted to determine public awareness and perception of the Administration's mission. Enough time has elapsed since the creation of the Administration and the survey that many of the individuals and groups have been replaced by entities that no longer know or understand the trust land message. It is critical to our ability to pursue opportunities that are in the best interests of the beneficiaries that we have public support for our mission. One of the best vehicles to deliver our message is a well-produced video. In order to meet this objective the Administration will perform the following tasks:

i. The Trust Lands Administration will produce a new agency video targeted at:
- Members of the state legislature
- Parents of schoolchildren K-12
- Teachers K-12

8. Director's Report (cont'd)

c. Consideration of Approval of FY 2007 Incentive Objectives (cont'd)

ii. The video will be designed to build:
- Awareness of trust lands
- Understanding of trust lands purpose
- Acceptance of the Trust Lands Administration mission
- Support for the Trust Lands Administration mission

iii. The video will be ready for distribution by January 2007.

iv. A survey, conducted in March, 2007, will be directed at the recipients of the new video. The survey will be conducted by Dan Jones & Associates or some other experienced advertising research organization. The survey will test the video in these general areas:
- Number of viewers vs. numbers of videos distributed
- Increase of awareness of trust lands among viewers
- Improvement in understanding of trust lands among viewers
- Increase of support of the Trust Lands Administration mission among viewers

Advancements in these areas will confirm the success of the video. Further, a general survey will be conducted in March, 2007, by Dan Jones & Associates, measuring certain factors of Trust Lands awareness in the respondents sampled. This survey will be the same as a survey conducted by Dan Jones in 2001. Compared with the baseline as established in the 2001 survey, awareness of the School and Institutional Trust Lands Administration will by measured in these factors:
- The number of respondents who are very familiar with the term Trust Lands Administration will increase from 3-percent to 8-percent.
- The number of respondents who are say they are very familiar or somewhat familiar with the term Trust Lands Administration will increase from 28-percent to 40-percent.
- The number of respondents who are very familiar or somewhat familiar of who have only heard the name Trust Lands Administration will increase from 51-percent to 60-percent.

Worth 9% of the Long-term goal - $4,000

8. Director's Report (cont'd)

c. Consideration of Approval of FY 2007 Incentive Objectives (cont'd)

G. Develop a long-term exit strategy for our lands impacted by the various wilderness proposals.

Wilderness continues to be a significant and contentious issue in Utah. All of the various proposals that have been discussed or promoted by the Department of the Interior and public interest groups will impact significant acres of trust land. Eventually, the Congress will deal with wilderness issues on public lands in Utah. It is important to have a clearly developed and articulated plan establishing a disposal/retention strategy for the trust lands that will be captured/impacted by the anticipated Congressional action. The strategy may include actions to be taken to influence wilderness designation decisions in specific areas.

In order to complete this objective, the Administration will accomplish the following tasks:

i. Identify and catalog all trust assets that are potentially captured by any of the wilderness proposals currently before the public;
ii. Identify those parcels that should be retained in trust ownership to further the objectives and mission of the Administration;
iii. Develop strategies to enhance the ability to develop the retained sections;
iv. Prioritize lands available for disposal so that a reasoned and timely response can be made to any exchange/disposal opportunities;

Worth 13% of the Long-term goal - $6,000

The Board discussed these objectives briefly, as they had discussed them at length last month.

Lee / Ferry. Unanimously approved.

"I move we adopt the FY 2007 Incentive Objectives."

Roll Call:

Lee - - yes	Ferry - - yes
Eardley - - yes	McKeachnie - - yes
Scales - - yes	Brown - -yes
Morris - - yes	

8. Director's Report (cont'd)

d. Director's Update on Issues

Director Carter gave the Board a copy of the Agency's bonus program, as asked for by the Board in June. Employees are eligible to receive a bonus upon achievement of our revenue goal and for having an "acceptable" rating. If they get a "superior" rating, they are eligible for 125 percent of the bonus. This is a much more defensible policy and still meets the teamwork objectives.

Director Carter updated the Board on the Little Hole situation. He had previously sent the Board an e-mail stating the Record of Decision (ROD) should be issued within a few days. We are in the process of polishing it up, and it should be issued soon.

e. Associate Director's Report

I. Recreation Land Exchange Update

Mr. Andrews reported that the land exchange legislation is currently facing two specific issues, both of which we have discussed with the Board previously. We proposed a novel way of valuing oil and gas assets - - not to appraise them, but rather divide up future proceeds on specified pieces. We have gotten push-back on the Democratic Staff. We are at a point in the next week or so to either push back hard on this issue, which might delay it, or simply go back to the traditional appraisal method. The second issue is that there is division between the Grand County Council and some of the environmentalists as to whether the legislation should withdraw sensitive lands itself or let BLM handle that after the legislation is passed. Once Congress comes back after Labor Day, they generally like to be adjourned by the end of September. We are hopeful to get this through during that time. We are still optimistic that this will get done this year. Calls to Representative Matheson may be helpful for others to make.

f. Surface Group Report

I. Report on Outcome of Range Creek Appraisal

Mr. Christy updated the Board on the Range Creek appraisal. About one and one-half years ago, the University of Utah asked us to engage in a land exchange for the property at Range Creek, about 1500 acres which the Division of Wildlife Resources (DWR) owns, to see if we could exchange it for other lands in the University of Utah's portfolio. Originally, the Wilcox Ranch in this area was 4200 acres. The 1500 acres are the remaining asset, and it is an archaeological gold mine. This is why the University of Utah wants to procure it. We had to come up with a

8. Director's Report (cont'd)

f. Surface Group Report (cont'd)

I. Report on Outcome of Range Creek Appraisal (cont'd)

process on how to approach the exchange with DWR. We established an RFP and Engagement Letter to procure an appraisal. We went with the higher bid because it was DWR's opinion that this appraiser would be better at appraising archaeological resources. There were two conservation easements procured in this transaction - - to the Department of Agriculture and Food and to the Division of State Lands and Forestry. The appraiser discounted the appraisal because of these easements. The appraisal was $192,000. DWR is disappointed at this price, but we are now in a position to do the exchange. DWR is still looking for someone who would pay above and beyond the appraised value.

In the appraisal process, we had the appraiser do an appraisal on two school sections in the area so that we could do the beneficiary exchange. They are appraised at about $600,000 cumulative. We think it is in the best interest of both beneficiaries to pursue a fund exchange while we are waiting to complete the exchange with DWR. Mr. McKeachnie asked if it is premature to make a fund exchange until we know there will be an exchange with DWR? He also asked what the University of Utah will do with the property? Director Carter noted we are working with the University to see what they will do with it. It was generally felt it is in our best interest to do the exchange.

g. Development Group Report

I. Wasatch County Properties Update

Mr. McBrier gave the Board a power-point presentation on properties we have in Wasatch County, which included Mayflower, West Hills, Little Pole, and Wallsburg.

Mayflower will have trophy homes built in the area. Little Pole is approximately 700 acres of great real estate. We have 35 acre feet of water here. This area hasn't been worked on much by Staff as of yet.

In Wallsburg there are three pieces. The Daniel's Canyon piece will be on the October land sale. Some of the land is on a mountain top and is highly desired by the Division of Wildlife Resources. The Surface Group is working with DWR on this piece. One of the other pieces has development potential. In West Hills there are some developers who would like to swap land with this piece and one of the Wallsburg pieces.

These are the properties we own in Wasatch County other than Tabby Mountain.

8. Director's Report (cont'd)

g. Development Group Report (cont'd)

II. Eagle Mountain: Timeliness of Development

Mr. McBrier discussed this item with the Board. At the May 2006 Board Meeting, the Development Group discussed land values in Eagle Mountain. During that discussion, the Board asked the following question about the Trust's Mid-Valley parcel in Eagle Mountain: "Is the timing right for a transaction on this project?"

In response to this inquiry, Staff has asked various parties who have been working with us to address this issue. Mr. Robinson (an appraiser of undeveloped land with Free and Associates) and Mr. Edwards (the Trust's on-the-ground consultant for the Eagle Mountain project) were both requested to simply provide their perspective to the issue. Elise Erler was specifically asked to make the case that it is premature. This material was provided to the Board before the meeting. The project's background and context are summarized below.

Background: The Trust owns approximately 1300 acres in the Mid-Valley parcel and smaller Pony Express parcel ("Project") in central Eagle Mountain. Three years ago, the Trust retained McKay Edwards to represent the Trust's holdings in Eagle Mountain. Mr. Edwards successfully negotiated a Development Agreement with the City and oversaw the construction of early infrastructure improvements.

Master Development Agreement - - The City and the Trust signed a Development Agreement in 2003 that sets out a master development plan for the Project, the entitlement of approximately 4000 residential units, 40 acres zoned commercial, and a large mixed-use area. In exchange, the Trust committed to spend approximately $3 million in infrastructure improvements and dedicate land to the City for major roads and regional parks and trails. The capital expenditures and land dedications are offset with impact fee credits.

Capital/Infrastructure: As of 2006, the Trust has spent approximately $4 million in capital on the Mid-Valley and Pony Express parcels to prepare the Project for development. We believe the capital investment successfully raised the appraised value of the Mid-Valley-Pony Express parcels above the general increase in the area's land prices.

Most of the proposed investment identified in the Development Agreement has occurred. Publicly, the most successful investment was the construction of Sweetwater road to link the northern (The Ranches) and southern (Valley Center) portions of Eagle Mountain City. As soon as the road opened, the public started to use the road; and use continues to be heavy.

8. Director's Report (cont'd)

g. Development Group Report (cont'd)

II. Eagle Mountain: Timeliness of Development (cont'd)

The capital investment, offsetting impact fee credits and reimbursements are summarized in the following:

Capital Item	Investment	Impact Fee Credits	Credits Reimbursed
Water rights (500ac/ft)	$1.1 million		
Water system Improv.	$0.75 million	$0.75 million	
Sweetwater Road	$1.7 million	$1.7 million	$0.2 million
Parks & Recreation	Land *	$1.1	
Planning/Entitlements, etc.	$1.3 million		
Total	$4.1 million	$3.55 million	$0.2 million

* The Trust deeded two regional parks, Pony Express Regional Park (58 acres) and Historic Pony Express/Overland Trail Park (52 acres), to the City. A civic center will be located on 10 acres within the Regional park. In return, the City granted $1.1 million in park and recreation impact fees.

Transaction types: There are two basic types of transactions that the Trust could enter into for the Mid-Valley and Pony Express parcels in Eagle Mountain. These transactions include a sale or a form of development lease venture.

Sale - - The Trust could sell the Mid-Valley and Pony Express parcels together to one or more buyers. A sale might capture the market's current valuation of the Project, but would be limited on capturing any future upside value from the Project.

Development lease venture - - In a development lease, the Trust works with a developer-partner to prepare the Project for development. The Trust typically carries the land until a home is sold to the home buyer, and the transaction provides for compensation to the Trust based on pricing achieved by the developer as land is privatized. While this approach exposes the Trust to the time-value risk associated with absorption, it does protect certain minimum values while allowing the Trust to participate in the Project's upside as the developer-partner continues to add value to the property during development.

Staff's perception of transaction timing: Staff believes that the issue of timing is related to transaction structure. It seems clear that, if we were to attempt to sell the property today, we would be disappointed in the value recovered. There are too many uncertainties in light of the

8. Director's Report (cont'd)

g. Development Group Report (cont'd)

II. Eagle Mountain: Timeliness of Development (cont'd)

size of the parcel. However, we also believe that the timing is right for a development lease venture. It is important that a developer (not the Trust) now take on this project in order to (1) start development for early sales in 2008, (2) push forward and resolve the Project's many remaining issues, and (3) generate the development momentum and work with the City to resolve its infrastructure issues (sewer, water, transportation, amenities). With a properly structured development agreement, the Trust will obligate serious developer investment at the outset and will then participate in the Project's upside values while protecting the downside to the Trust.

A key issue affecting Staff's judgment about timing is related to water. While we own 500 acre feet of water, the project will need approximately 3000 acre feet. There is a great deal going on in connection with providing future water for Eagle Mountain (and other Utah County areas), and there is a lot of land positioning to capture this water. It is important that a developer, with substantial equity at risk, be focused on insuring that water is protected to serve our parcel.

Staff also believes that western Utah County growth is going to continue strong into the future. This segment of the market is for entry-level and first step-up homes, and demographic growth in this segment is strong. This parcel, with an entitlement of 4,000 units, will take two years to start and 10-15 years to build out. Given the scale, getting started with a quality partner and a good deal structure, makes sense to Staff.

The Board had been given memos on this project from McKay Edwards, Ms. Erler, and Roland Robinson. Mr. McBrier introduced Mr. Edwards to the Board. He noted he has worked with Staff for three years on this project and helped put this first deal together.

Mr. Edwards stated he has enjoyed working on this project. His goal is to get us into a transaction. If the Trust were to hold the land, it probably would need someone to look after the best interest of this parcel. He would focus on two points: (1) how long this type of project deals take to make and (1) his feeling that letting the land languish is a down side. He has been involved in Deer Crest, starting in 1978. They sold to a large group in 1996. They expected that the project should have been built out by now. The project is going well and is now about 30-40 percent built out. This is a tough business, and it takes a long time to do these types of project and get the values out of them. He believes that starting today on Eagle Mountain would maximize the values on the 10-20 year horizon. He feels he has built, on behalf of Trust Lands,

8. Director's Report (cont'd)

g. Development Group Report (cont'd)

II. Eagle Mountain: Timeliness of Development (cont'd)

a good working relationship with Eagle Mountain City. How this parcel goes is how the City will go. If the City goes well, the Trust will benefit tremendously. There are two different parcels that make it feel almost like two different towns. The heart of the City is destined to be on this parcel. The Pony Express Trail is on this property, and this will create identity for the City. The land is in the center of a mass of density in this town. There are schools, commercial entities, etc., that will combine to create the heart of the town. For that to really happen, there needs to be someone who is watching and taking care of it. If the trust land is held fallow for the next 10 years or so, the center of town will happen elsewhere. This is a chance for the town that was not planned well from the outset to be redeemed. We don't want to jeopardize the lands to the Trust and this will let the highest returns in the town to occur around the core, which could be these lands. The 500 acre feet of water might be the only water available to this parcel. There are some other options, but this water could make a real difference in the type of development in the town.

Roland Robinson, the appraiser of Free and Associates, stated they do work around the state and has been focused on Utah County for quite some time. Mr. McBrier noted he thinks Mr. Robinson knows more about Utah County than about anyone regarding appraisal values, etc. Mr. Robinson noted their role in the market is appraising and market analysis. They did a market analysis on the Eagle Mountain and Saratoga Springs area years ago. They specialize in keeping up on the market at all times. He appreciates Mr. Edwards' comments on doing the right thing for the Trust as we did at Coral Canyon, where he has recently purchased a home. He feels the advantage the Trust has is the ability to foster a plan and conceive an idea that would provide large returns over the next eight to 10 years. The data they have analyzed is very indicative of the market analysis they are watching. When they did the original market analysis, they wondered where the demand would come from. They tried to project ahead as to what would happen, and they felt that a significant portion of the demand would come from Salt Lake County. They have some numbers in the absorption analysis that demand is now moving toward this area. They also looked at demographics in doing their analysis of this market. Utah's demographics are unique - - they are much more pronounced than other areas. We have a tremendous amount of demand at Eagle Mountain coming from the "baby boom echo". Employment has been good in Utah. Interest rates are easing up a little. There is still much inventory in lands out there. The timing is possibly not right to sell all of it right now. However, the timing is very good to build something similar to Coral Canyon. Where to start on the property is the question. The Ranches has been very popular and is getting built out. Starting close to this, where the people feel is a successful community, would be well.

8. Director's Report (cont'd)

g. Development Group Report (cont'd)

II. Eagle Mountain: Timeliness of Development (cont'd)

Mr. McBrier stated that his concern is whether to hold it or whether to start with a developer and get it going. Chairman Morris asked if the drive to do a transaction in the near future is so that we don't have to invest so much Trust money into it right now? Mr. McBrier stated we have invested a lot of money and Staff time already. There are other issues needing attention in Utah County at this time. Mr. Morris asked why we don't hire a consultant to invest the capital, move toward getting some of it developed, etc.? Mc. McBrier stated that organizationally we are very strained to do this type of deal. Director Carter noted it might be a very legitimate place for us to spend capital, since most people see us as a southern Utah developer.

Chairman Morris asked what the market value was before we invested in it and what it is now? Mr. Edwards stated that, before we got started it was probably about $500/acre. About three years ago when he stepped in, it was about $8,000/acre. Concluding the master development agreement with the City would take us to about $20,000/acre as it sits now. It was asked if there was a developer who would give us $25,000/acre? Mr. Edwards stated he did not know. Administering master development projects are not always easy, but now is probably a good time to do it based on the economy, etc. The timing is good for getting someone invested in it right now. Mr. Morris asked about the possibility of holding a meeting at Eagle Mountain or taking a tour of it. Staff will work out some tours of the property for Board members.

Mr. Morris stated he is worried about transportation. Mr. McBrier stated that this is the market for young families needing starter homes. It will probably take about two years before homes are on this property. Mr. Edwards indicated he feels we need someone full time on Staff to work on this project. Mr. Robinson stated there are transactions taking place now for about $100,000 per acre - - smaller parcels with water, entitlements, etc.

Mr. McBrier noted that, if the Board is concerned to the level where they don't feel we should do a transaction, they should tell us now because we feel it is ready to go and we can put together a good transaction. Chairman Morris stated that, if any of the Board members have concerns about a transaction at this time, they should talk with Mr. McBrier. The Board would like another update on this next month regarding where we are in the process; i.e., economics and metrics.

8. Director's Report (cont'd)

g. Development Group Report (cont'd)

III. Capital Investment for Roadway - Tonaquint

Mr. McBrier reviewed this with the Board. Trust Lands currently owns approximately 1700 acres in the City of St. George located between Green Valley and Bloomington. This area, known as Tonaquint, is rapidly developing. Trust Lands is currently engaged in master planning 800 acres of the 1700-acre piece. The 800-acre master plan could contain up to 2400 homes with associated businesses and possibly a spa site. The Trust has entered into a Development Lease with Quality Development on an additional 100-acre adjacent piece.

Property description: The Tonaquint property is bounded on the North by the Lakes development, on the South by the Estates at Bloomington subdivision, on the West by open space, and on the East by private properties fronting Tonaquint Drive. The piece currently does not have access to a major roadway that could support development of the piece. However, access to the piece could be through the adjacent private property (Tonaquint Terrace subdivision) via a new raod (2070 South) being built by the neighboring property owners.

Background: The major entry point off Tonaquint Drive to the 800-acre trust property will be 2070 South. Other access points are being planned through other adjacent private properties. However, the development of these other access points will not occur for some time. Initially, the surrounding landowners intended to construct and dedicate 2070 South from Tonaquint Drive to the eastern boundary of the Trust's property as a 66-foot wide road. This width of roadway would be inadequate to serve the master planned 800-acre property and, if implemented, would probably limit density on the Trust Lands' piece. The landowners further initially intended to construct the road with no medians, with no communication conduits, and with storm sewer capacity appropriate for a 66-foot wide road to serve only their development.

The Trust has determined that it will be able to more effectively develop the Tonaquint property if 2070 South is built to certain standards, including medians as well as communication conduits. In addition, the Trust desired that 2070 South be dedicated to the City with a width of 90 feet to preserve the possibility of 2070 South being widened in the future. The Trust further wanted the storm sewer capacity of 2070 South to be upgraded in such a way that it would be appropriate for a 90-foot wide road, if such is constructed in the future. Securing these changes would ensure the appropriate ability to develop the Tonaquint piece to its greatest capacity.

Agreement: The surrounding landowners have agreed to include medians, communication conduits, and upgraded storm sewer capacity, provided that the Trust Lands Administration contributes funds to compensate for these additional improvements. In addition, the surrounding landowners have agreed to dedicate the access road to the City with a width of 90 feet.

8. Director's Report (cont'd)

g. Development Group Report (cont'd)

III. Capital Investment for Roadway - Tonaquint (cont'd)

The total cost for the up-sized project is in excess of $1,600,000. The Trust will pay only for the up-sizing of capacity from the original designs. Total cost to the Trust for the upgrades in utilities, sewer, and road capacity will be an amount not to exceed $208,661.41.

Conclusion: Providing funding toward an upgrade in road size and sewer and utility capacity will maintain adequate access to the piece. Additional capacity is also preserved for future development which otherwise could not be provided. In the future, the road may have to be widened further, but for now we have preserved the access and appropriate capacity to the 800-acre piece and significantly enhanced Tonquint's value.

This was for information to the Board. There was no concern expressed by Board members.

IV. SunCor - - Coral Canyon Market Place

Mr. Rodger Mitchell reviewed this with the Board. The property is an approximately 17-acre commercial shopping center site within the boundaries of the Development Lease with SunCor. It sits at the intersection of Highway 9 and Telegraph Road.

History: The property has long been planned for a grocery-anchored retail center to serve the Coral Canyon and Hurricane areas. Approximately one year ago, SunCor entered into negotiations with a Las Vegas developer, Nigro Development ("the Development Company"), to sell the property for the development of a Smith's-anchored shopping center. Last May SunCor entered into a contract with the Development Company allowing them to purchase the property under certain conditions. One of those conditions was that the Development Company give SITLA an opportunity to participate in a 50 percent equity position in the project. Staff has reviewed the project and feels the site is excellent and the preliminary numbers show a very good opportunity for the Trust to secure very good long-term returns from participating in this venture.

Current status: Over the last six months, Staff has negotiated what it feels is a good joint-venture structure with both parties bringing equity to the project. At the same time, the Development Company has been negotiating an agreement with Smith's to be the anchor tenant in the project. Last weeks, Smith's indicated it does want to enter the project, but it believe the project is a bit premature. Smith's would like to enter into an agreement that ties the start of construction with

8. Director's Report (cont'd)

g. Development Group Report (cont'd)

IV. SunCor - - Coral Canyon Market Place (cont'd)

the number of rooftops in the area. The current purchase contract with SunCor calls for an October 16, 2006, closing and is not contingent on having an anchor tenant. It appears the closing date will arrive prior to an anchor tenant being secured. Consequently, SITLA, in order to protect its opportunity to particpate in the project, may need to close the land purchase as a joint-venture partner with the Development Company prior to knowing the specifics on the design and economics of the project. The probability is the Development Company will not move forward with the purchase; but, with the excellent nature of the property, there is a chance they will close the sale.

The project: Preliminarily, the project appears to be around 150,000 square feet with costs around $20 million. SITLA's equity would be its land value of approximately $2.332 million and approximately $1 million more for a 50 percent position. The preliminary numbers show a 16 to 18 percent IRR over 20 years with an initial cash-on-cash return around eight percent.

Mr. McBrier stated SunCor controls this property. Our deal with them is that, on commercial sites, they would like us to decide if we want to be involved. They don't want to develop it, so they found a developer and wrote into it that we were a 50/50 owner. Nigro wants to close without Smith's really becoming a core unit on it. Mr. Mitchell stated SunCor would like to close the deal because they are looking for income this year. However, their overriding interests is that they want to have a good relationship with Trust Lands. Neither one of us wants to push the other one into something they don't want to do. Staff wants to know how the Board feels about preserving the 50 percent ownership in the development. If we are a partner, we have to come up with $1 million.

Mr. Moris asked if we had staff to get into transactions with recurring revenue? Mr. McBrier stated have the staff if we don't have to staff it after the recurring revenue. Ms. Bird stated she feels we should do the recurring revenue whenever we can. This is a "forever trust". Mr. Morris indicated he is concerned we are getting into a land transaction with someone we don't know, and it will be hard to get out of it if we need to do so down the road. Mr. McBrier stated that, if we are just going to get into a land partnership with these people, we would have to make sure we have kick-out clauses, a buy-out, etc. Staff will have more information on this next month. Chairman Morris asked if any of the Board members had a problem with it now and should Staff quit working on it now? There was no concern voiced at this point.

8. Director's Report (cont'd)

g. Development Group Report (cont'd)

V. Revenue Analysis and Capital Expenditures - FY 2006

Mr. McBrier showed the Board a power-point presentation on this issue. He showed the Board a chart of revenues since 2001, with actual revenue for FY 2006 being $38.8 million gross, with a net of $36.1 million. The forecasted revenues for FY 2007 are $30 million.

Top 10 of 27 Projects ($36.1 Million Net Revenue)

1.	Sienna Hills	$5.7 M	6.	Jordanelle	$2.5 M
2.	Ft. Pierce Ind.	$5.2 M	7.	Cedar Golf	$2.1 M
3.	Entrada	$4.9 M	8.	Sun River	$2.0 M
4.	Coral Canyon	$4.6 M	9.	Fossil Hills	$1.8 M
5.	Gateway Ind.	$3.9 M	10.	Big Water	$1.4 M

Where did it come from:

Property type:

Commercial:	1.3 percent
Industrial	27 percent
Residential	81 percent
Skiing	0.8 percent

By County:

Washington:	81 percent	Wasatch:	7 percent
Iron	6 percent	Kane	4 percent
Summit	1 percent	Utah	0.48 percent
Grand	0.14 percent	Garfield	0.11 percent
Tooele	0.01 percent		

8. Director's Report (cont'd)

g. Development Group Report (cont'd)

V. Revenue Analysis and Capital Expenditures - FY 2006 (cont'd)

FY 2007 Revenue Forecast:

Cedar City	$2.0 M
Vertical Investment	$0.1 M
Washington County:	
Coral Canyon	$4.0 M
Ft. Pierce	$4.0 M
Ivory/Hidden Valley	$2.0 M
Sienna Hills	$7.0 M
Sun River	$2.5 M
Other	$1.3 M
Rest of State	$7.1 M
Total:	$30 M

FY 2006 Capital: $5.75 Million:

Five Largest Projects:

Dixie Downs Commercial	$364,468	6 percent
Eagle Mountain	$410,610	7 percent
Coral Canyon Towncenter	$628,840	11 percent
South Block	$733,702	13 percent
Sienna Hills	$2,764,968	48 percent

By Category:

Engineering	$0.7 M	12 percent
Vertical Investment	$0.6 M	11 percent
Planning	$0.3 M	6 percent
Infrastructure	$3.1 M	55 percent
Other	$0.9M	16 percent

By County:

Washington	$4.3 M	83 percent
Utah	$0.4 M	7 percent
Iron	$0.1 M	2 percent
Grand	$0.1 M	2 percent

8. Director's Report (cont'd)

g. Development Group Report (cont'd)

VI. Capital Expenditures Discussion for FY 2007

Mr. McBrier discussed this with the Board.

Capital Forecast for FY 2007:

Project	FY 2007	FY 2008	FY 2009
Cedar City	$0.8 M	$0.8 M	$0.5 M
Saratoga Springs	$0.1 M	$0.7 M	$1.0 M
Vertical Improvements	$1.3 M	$0.5 M	$0.5 M
Washington County:			
Sienna Hills	$2.2 M	$2.0 M	$1.0 M
South Block	$2.8 M	$3.7 M	$3.6 M
Other	$0.5 M	$0.1 M	$1.2 M
Rest of State	$0.6 M	$0.5 M	$0.5 M
Total:	$8.3M	$8.3 M	$8.3 M

Mr. Ruland Gill, of Questar Gas, appeared before the Board. He congratulated the Board and Staff on the income stream. In oil and gas development, there is a window of opportunity that is very short. He gave the Board some background.

About 1985 - 2000, Questar took money out of Utah and put into oil and gas drilling in other states. Currently, they are number two in national gas development and number three in black crude development. They have never been involved in the BLM RMP processes. As a result, the RMP's have resulted in plans that are difficult for the oil and gas industry. The counties put together a meeting last week in Denver with BLM. BLM told them that RMP's are being developed and asked for input. Mr. Gill stated at that meeting he was told there was a fatal flaw in that the plans don't look at socio-economics. Since the world demand has changed, there are impacts on society with higher costs of drilling, etc. Those things are not addressed in these plans. A few weeks ago, the counties called another meeting with BLM and requested serious input into the RMP's by those most affected in the state. He noted Mr. McKeachnie and Lynn Stevens have done much work on this issue. As a result of this, a lobbyist for the counties, Bob Weidener, stated we may have for the first time a chance to fix the process. One of the county commissioners leaked this to the Utah Wilderness Society, and there was an article in the paper stating that BLM was too cozy with the oil and gas developers. To get a meeting with BLM on oil and gas issues, you have to go to Denver. Questar hired the best environmental consultant

8. Director's Report (cont'd)

g. Development Group Report (cont'd)

VI. Capital Expenditures Discussion for FY 2007 (cont'd)

they could get. They feel they can handle it all, but not the socio-economics. Mr. Gill was in a meeting yesterday with the Utah Grazing Advisory Board, of which he is the oil and gas representative. Others on that board felt this is a real chance to help. He stated that Leonard Blackham, of Agriculture, stated he would put in $50,000. Utah State University is doing a study at the request of the Governor's office. The schoolchildren of Utah probably have the "biggest dog in this fight". He has only recently thought about this, and it is not a fleshed-out idea yet. We don't want to slow the RMP process. The idea would be to share with agriculture, industry, and BLM and put some money into a serious study of the socio-economic impacts of the RMP process. He hasn't talked with anyone else yet. The idea would be to take their oil and gas assets and move them up the value chain by some type of study that would be done by USU. He thinks the entire study would be between $200,000-250,000. He doesn't know what industry will contribute. Therefore, he isn't in a position to ask for anything yet, but is only wanting to give the Board notice of the opportunity to participate in this study. It is Questar's first opportunity to put some money into a process that they think may help. He is asking the Board to think about it or give Staff the assignment to research it further.

In summary, Chairman Morris noted that Mr. Gill is asking the Board to co-fund a study by USU regarding the socio-economic impacts of the RMP process. A six to eight-week window applies to the public input process on the RMP plans. Hopefully, the study would favorably benefit the socio-economic impacts.

Ms. Garrison stated she has been involved in the RMP process since it started, primarily in Vernal and Price. In this process, which has not been done since the 1980's, for the first time BLM has invited the counties and state to participate in its planning efforts. Price BLM put out its draft about a year ago. It was pretty flawed. They did not accept many of our comments. They each independently, Vernal and Price, have done socio-economic studies. The counties revised the socio-economic reports. She is not aware of any public comment period that is going on now on these plans. We need to do more investigation into this issue. Mr. Andrews noted that details would have to be worked out. RMP's and EIS studies are supposed to take into account socio-economics. In the grand scheme of things, the environmental community is trying very hard to block these processes until the next election, hoping that the other party gets in and starts this process over again. Having good information on the socio-economic impacts ensures that we are at the table and have ammunition in the appeals that will surely follow the RMP process. Philosophically, we should be on board with these, because the socio-economic impacts

8. Director's Report (cont'd)

g. Development Group Report (cont'd)

VI. Capital Expenditures Discussion for FY 2007 (cont'd)

will greatly affect us. Chairman Morris asked if we need to contribute money to the study or is the study going to happen anyway? Director Carter stated we would want to look into this. We would spend the money out of our Professional and Technical Services money. The benefit to the Trust that this data might provide would be great. It would be good for us to do something to help the counties involved at this point. This would help with some of the criticism of the counties that we take things out, but don't put anything back. The RMP's don't cover our lands.

Mr. Gill stated there was another study done by USU. Someone in the Political Science Department criticized it highly. The study will have a short period of time in which to be completed. It would be a great help for the Trust to participate. Ms. Garrison stated we might want to consider that, if you do a socio-economic study that is paid for by the oil and gas industry, some may see that as a flawed document. Mr. Andrews stated that socio-economics is not a science, and there can be flawed arguments on both sides. We need to ensure credibility with the study. The Staff time to manage a consultant would be very difficult for us. Because of the benefit to the Trust, we should allocate Staff to do it.

Director Carter suggested that possibly Trust Lands, Agriculture, and others who want to participate should provide money to Lynn Stevens' office and have them manage the study. Mr. McKeachnie stated it would be well to have the Trust contribute, but it would be well to have it coordinated so that the state speaks with one voice to BLM. Mr. Gill suggested that, to the extent the Board needs to give guidance and provided there is a case that can be made, there be a certain amount of money designated that could go to this study. It was noted that the Staff can just decide this; but, if we spend over $100,000, we tell the Board about it. Mr. Eardley noted he hopes we would engage in this process. Ms. Bird noted that it could be important that, after the study is completed, we have someone in the Economic's Department look at it so that they could defend it well. We would want to know specifically how it would impact the income to the schools, etc.
Chairman Morris noted that we generally feel it is in our best interest to participate, and we want to spread it around as much as possible with partners who have the same interests as we do. The Director will use his best judgment in deciding what we do with this study. He expressed appreciation to Mr. Gill for alerting us to this opportunity. Mr. Eardley stated the counties have already spent much money on this process.

8. Director's Report (cont'd)

g. Development Group Report (cont'd)

VII. Sienna Hills Parcels 4A,. 4B, and 4C

Mr. McBrier reviewed this with the Board through a power-point presentation. He noted this was negotiated before our problems with the Washington County Water Conservation District. Those issues were not in the economics of this deal. We had previously stated that, if there was an additional fee on the water, the District would share the burden. There is a similar issue in this transaction. There is a meeting next week where we will continue to discuss this issue.

With the Board's approval, we will add the water fee provisions to the transaction. Before we pay this to the water district, there probably will be much controversy because the Trust is being treated differently than other private entities. If the imposition stays, it will devalue our lands. We would like a provision in the contract stating that, if the levy is imposed, we will pay that burden.

Lee / McKeachnie. Unanimously approved.

"I move we approve this."

Roll Call:

Lee - - yes
Eardley - - yes
Scales - - yes
Morris - - yes
Ferry - - yes
McKeachnie - - yes
Brown - -yes

9. Consent Calendar

The Board had no concerns on any of the items, so they are all approved.

a. Addition to Other Business Arrangement - Ouray National Wildlife Refuge - - Stonegate Resources, Lessee

At the June Board Meeting, the Agency requested an OBA on behalf of Stonegate Resources to earn an oil and gas lease from Trust Lands within the Ouray National Wildlife Refuge with a caveat that Stonegate must negotiate a surface-use program with the Refuge prior to lease issuance. After the June Board meeting, it was discovered that the leases on some odd-shaped parcels of trust land within the Ouray Wildlife Refuge had expired by their own terms, but the maps had not been update so the parcels showed up as leased, but were unleased. Upon notification to Mr. Wilson at Stonegate Resources that the 168.04 acres are currently unleased, he verbally asked if the Agency could amend the OBA approved at the June meeting to include the additional 168.04 unleased acres. Those lands are:

Township 8 South, Range 20 East, SLM
Section 21: Metes and Bounds (54.62 acres, more or less)

Township 8 South, Range 21, East, SLM
Parts of Sections 5 and 6 (113.42 acres, more or less)

Uintah County; Beneficiaries: Utah State Hospital (Sec. 21) and Schools (Secs 5 and 6)

It is the Agency's recommendation that the Board amend the description of the OBA granted by the Board to Stonegate in June on Section 36, Township 7 South, Range 20 East, to include these lands under the same terms and time frames as stated in the June approval as though the land had been part of the original OBA request. It is in the best interest of the trust beneficiaries to keep these lands together as one package so that the management at the Refuge can deal with one party rather than several. The tracts are isolated and irregular in shape. Development would be difficult on their own.

This item is approved by the Board, since there were no comments on the Consent Calendar items.

9. Consent Calendar (cont'd)

b. Amendments to Ticaboo Development Lease

Staff is proposing an amendment to the Ticaboo Development Lease. The lease, in its current form, provides for an obligation to invest $500,000 before August 1, 2006. The lessee has informed us that he will not be able to fulfill that obligation and has requested to be released from the obligation. We proposed to reduce the investment obligation by the amount recently spent on deferred maintenance (approximately $200,000) and defer the balance of the obligation for five years. The payments to the Trust on lot sales will go up to 20 percent for all lot sales (currently $1,200 - $2,000 per lot for single-family lots that have been selling for $15,000 and 15 percent of the lot price for mobile home lots now bringing $7,500).

History: The Ticaboo Development Lease covers almost an entire section along Highway 24, 12 miles from the Bullfrog Marina at Lake Powell. The lease dates from July, 1978, and provides for phased recreational and residential development of the section (Section 16, Township 36 South, Range 11 East, SLM. School beneficiary). Since 1978, a motel, gas station with a convenience store, and a boat-storage facility have been constructed on the premises. They have been more or less continuously operated. A 98-lot residential subdivision and 149-lot mobile home subdivision have been platted on the property. The balance of the property (approximately 540 acres) has remained vacant.

In 1997 the lease was substantially amended to allow for fee simple sales of residential lots. To date, 64 lots have been sold for total revenue to the Trust of $71,000, averaging a little over $1,100 per lot. Rent and percentage rent revenue have averaged $34,000 per year since 1999.

The lessee at Ticaboo is U. S. Energy Corporation, who developed an interest in Ticaboo as sideline of its interest in the nearby Shootaring Uranium Mill. In 2003, U. S. Energy sold its interest in the property to the Cactus Group in a seller-financed transaction. The Cactus Group's management for the property was not a success. The group defaulted on the note, and U. S. Energy foreclosed on the property in February, 2006, and regained control over Ticaboo. By this time, the property required many repairs before it was ready to reopen in the spring. U. S. Energy spent approximately $200,000 on deferred maintenance and entered into an agreement with Aramark for the management of the motel, restaurant, gas station, convenience store, and boat-storage facility. U. S. Energy is currently focusing on developing the sale of more lots, possibly aided by the recent renewal of interest in the nearby uranium mill.

9. Consent Calendar (cont'd)

b. Amendments to Ticaboo Development Lease (cont'd)

Analysis: The exploitation of the Ticaboo section has not been trouble-free. However, it has yielded a steady annual income stream of approximately $34,000 per year over the last seven years. While it is in the Trust's interest to encourage further development through capital investment, it would be counterproductive to force the issue just as the venture is recovering from three years of mismanagement. We anticipate the continuation and, with the use of Aramark's expertise, possibly an increase of the annual rents. We are confident that with time additional capital investments will be made to increase the value of the property to the lessee, to Aramark, as well as to the Trust.

We expect the revenue from lot sales to the Trust to increase as a result of the higher percentage payments to the Trust, as well as the renewed focus of U. S. Energy on lot sales after years of neglect and due to the potential reopening of the nearby environmental mill.

In summary, we recommend to amend the lease as follows:

* Reduce the $500,000 investment obligation by the amounts spent on deferred maintenance
* Defer the balance of the obligation for five years
* Increase the lot sale (single-family and trailers) payment to 20 percent of the gross sales price.

This item is approved by the Board, since there were no comments on the Consent Calendar items.

c. Ridge Road Business Park Land Sale - - Carbon County

The Trust's Ridge Road Business Park is located in Carbon County, approximately four miles south of Price on SR-10. The Trust fully improved (with water, sewer, gas, power, and fiber optic) and developed the Business Park in 2000 to stimulate economic development in Carbon County. The Trust sold three lots totaling six acres in 2000-2001. There are buildings on one lot. To date, the Trust has spent $517,000 to develop the Business Park and has received $121,000 from lot sales.

Interest in Business Park lot purchases has been lack-luster for the last five years, reflecting the slow business growth in the Price-Carbon County area. Recently, the Trust received a full-price offer to purchase a lot in the Business Park.

9. Consent Calendar (cont'd)

c. Ridge Road Business Park Land Sale - - Carbon County (cont'd)

Business Park growth: One owner, Tomadakis Investments, has constructed two buildings on his three-acre lot. The first building shell was raised in 2002-2003 and partially occupied in 2003-2004. The remainder of the building was completed and occupied in 2005. A second building shell was erected in 2005; this building awaits identification of a suitable tenant before completion. The other two lots in the Business Park, sold in 2000-2001 to Uintah Mountain Copper Company and Therma Tech, remain in their initial undeveloped condition. The small-lot portion of the Business Park also contains a coalbed methane gas well. The gas well opertor, ConocoPhillips, placed a shed around the well to contain noise and shield the wellhead from Business Park visitors.

Discussion of development potential: Industrial development in Carbon County has been painfully slow. The local economy has grown sufficiently to occupy existing industrial space; however, only in the last two months have we seen signs of real interest in buying land and constructing new facilities. A trucking enterprise wants to relocate in order to expand its trucking fleet. An engineering firm wants to relocate and construct a larger office and shop space. A reagent supplier to the gas industry wants to expand its mixing, storage, and truck-loading facilities. The last business has made an offer to purchase an acre and is pursuing the required conditional use permit with the County.

The Business Park is challenged by limited daily activity and no new signs of growth. We are concerned that the local business community may soon view the Business Park as "failed", which would discourage potential businesses from relocating into the Park. New activity in the Park, resulting from the proposed sale, would create new momentum and should stimulate more buying interest in the Business Park.

Pricing and land values: Development in the Business Park appears to have been constrained by the Trust's land prices. The initial lot sales were made in 2000-2001 for $20,000/acre for interior lots. For the last two years, the Trust has quoted $25,000/acre for interior lots and $30,000/acre for highway-frontage lots. All interested callers felt those prices were too high, except for the proposed one-acre lot sale. Recent inquiries mention that comparable industrial land closer to Price is priced about $5,000/acre less.

Lot location: The one-acre lot would be located on an interior lot in a location a safe distance from the gas well and along an interior road that has utilities in place. As of now, ConocoPhillips has not advised the Trust as to the safe distance from the wellhead for the proposed facility. For working purposes, we have assumed 400 feet from the wellhead. The description of the lot is:

9. Consent Calendar (cont'd)

c. Ridge Road Business Park Land Sale - - Carbon County (cont'd)

Township 15 South, Range 10 East, SLM. - - Beneficiary: Schools
Section 9: 1.0 acre lot - - to be described in metes and bounds

Purchaser: The proposed purchaser, Nelco Contractors, is an established Price business and has a larger facility on the west side of SR-10 on a 20-acre parcel of land that Nelco purchased from the Trust in 2002. Nelco worked cooperatively with the Trust to develop the "large lot" portion of the Business Park. Nelco is using all of the space on that 20-acre parcel for its primary business activities. The one-acre lot will house a potassium chloride mixing and distribution facility that Nelco needs to expand and relocate from another location in Carbon County.

Transaction summary: We propose to sell a one-acre parcel to Nelco Contractors for a new potassium chloride chemical mixing and shipping facility. Nelco has arranged bank financing and would make a cash purchase of $25,000, plus its share of any closing costs, for the one-acre lot. In addition, Nelco will work with the Trust to lift the appearance of development in the Business Park. This proposed development sale is appropriate. We request flexibility to safely locate the one-acre parcel along the Business Park's main north-south interior road once ConocoPhillips provides safe-distance guidelines.

This item is approved by the Board, since there were no comments on the Consent Calendar items.

d. Sale to St. George City of Two Acres - Sun River Fire Station

For almost two years, the Trust and the City of St. George (the "City") have discussed various sites for a City fire station in the Sun River area of the City. The City's motivation for a new fire station in this area is twofold: (1) this area has experienced significant population growth in recent years and (2) reduced emergency response time from the Sun River area to the Virgin River Gorge due to the planned Atkinville Interchange (MP 2) on Interstate 15.

Several months ago, the City Fire Department selected a two-acre site at the intersection of the existing Pioneer Road and a master-planned road by the name of Bluegrass Way - - north and east of the existing Sun River development. Along with other important infrastructure, a fire station is important to the viability of development in this area. The Trust manages hundreds of acres in this vicinity that will be served by this fire station, including the future development areas around the new Mile Post 2 Interchange. Nearly all of the private lands in the vicinity of the new fire station have been developed, leaving large areas of trust lands to develop in the future.

9. Consent Calendar (cont'd)

d. Sale to St. George City of Two Acres - Sun River Fire Station (cont'd)

During the site selection process, the Trust ordered an appraisal of the property to determine its value. The appraisal placed the value of the property at $500,000 or $231,192/acre ($5.45 per square foot - appraised by Morley & McConkie on April 4, 2006). The Trust provided a copy of the real estate appraisal to City staff. Over a course of several weeks, the Trust and City staff negotiated a transaction on this piece. Benefitted by contributions promised by Sun River, the City ultimately agreed to purchase the parcel for its appraised value of $500,000. On May 25, 2006, the City Council authorized the City staff to proceed with the acquisition of this property.

Transaction: Staff recommends the sale of this parcel to the City of St. George for the construction of a fire station site based on the following terms:

Purchase price:	$500,000
Road improvements:	The City will improve no less than its half of the yet-unimproved Blue Grass Way roadway
Parcel size:	2.108 acres
Closing costs:	Each party will pay one-half of the escrow fees

Financial analysis: The proposed terms of the deal, specifically the purchase price, are in line with the appraised value of the parcel.

Conclusion: Located in proximity to future trust lands development parcels near the expanding Sun River development and the proposed commercial developments around the future Mile Post 2 Interchange, the City fire station will provide important public infrastructure that will support real estate transactions on hundreds of acres of valuable trust lands. Staff recommends approval of the sale to the City of St. George.

This item is approved by the Board, since there were no comments on the Consent Calendar items.

<u>9.</u> <u>Consent Calendar (cont'd)</u>

<u>Board Notification:</u>

<u>e.</u> <u>Negotiated Sale to Escalante City, PS 8301</u>

Pursuant to rule R850-80-5502(2), this is formal notice that Staff intends to complete a negotiated sale of the following-described land to Escalante City in Garfield County, Utah:

<u>Township 35 South, Range 3 East, SLM.</u>
Section 27: Beginning at a point located South 1904.73 ft. and East 2653 feet from the NW corner of T35S, R43S, Sec. 27; thence S40 49'36" E 90.46 ft; thence S89 46'15" w 58.92 ft.; thence N 00 10'59" W 68.68 ft to point of beginning, containing .046 acres.

Escalante City has requested that this very small portion of ground be sold to them because it lies within their proposed airport runway safety zone. They are in the process of upgrading their airport and have received federal funding for the maintenance and upgrade of their airport and need this small parcel to meet the federal funding requirements. They are acquiring other private lands in this area to meet this obligation as well.

The appropriate advertising has been completed pursuant to rule; and no comments, competing applications, or interest were received. An appraisal has been completed on this parcel, which established fair-market value for this parcel at $500 (this equates to approximately $11,000/acre land value). The appraisal has been reviewed and approved. The terms of the sale will be cash.

This item is approved by the Board, since there were no comments on the Consent Calendar items.

<u>f.</u> <u>Amendment to SULA 127 - Commercial - Trail Mountain Resort</u>

Pursuant to R850-30-1000(2), this is formal notice that the Agency intends to amend SULA 127 by allowing changes to the development plan and reducing the annual base rental. SULA 127 is a commercial special use lease issued to Blaine and Mark Luke, dba Trail Mountain Resort (TMR), 225 Kings Lane, Green River, Utah, 84525. The lease contains 16.4 acres, more or less, in Section 32, Township 17 South, Range 6 East, SLM (beneficiary is Schools). The current purpose of the lease is to develop and improve a commercial restaurant, lodge, camping, and recreational vehicle facilities, rental cabins, store, picnic, and pavilion sites, shower facilities, recreation vehicle rental facility, and other facilities appurtenant to the commercial activities at the Joe's Valley Reservoir area in Emery County.

9. Consent Calendar (cont'd)

f. Amendment to SULA 127 - Commercial - Trail Mountain Resort (cont'd)

The beginning date of the original lease was May 1, 1966. Since that time, the lease went through several owners and was eventually assigned to TMR in March, of 1998, at which time the lease was amended to its current status. The expiration date of the lease is November 30, 2048. The next lease review date is December 1, 2007.

TMR recently submitted a letter to the agency outlining the efforts it has taken to meet the development plan requirements as provided in the lease. The requirements of the development plan are:

1. Expand and improve the current campground to include 15 new camp sites.
2. Add at least two new group sites with pavilion, picnic tables, gas grills, and water.
3. Improve and expand existing restroom facilities. Added shower facilities.
4. Add five cabin rental sites.
5. Expand the lodge and restaurant facilities and add a recreational rental facility.

TMR has successfully completed all of the above development plan requirements except for expanding the current campground to include 15 new campsites. However, due to the relatively poor market response from some of the improvements, TMR has requested that the development plan provisions of the lease be amended in the following way:

A. Remove the requirement to add 15 new campsites.
B. Remove the requirement to provide recreational rental facilities and services.
C. Remove the requirement to expand and operate restaurant facilities.

TMR offered the following reasons to justify its requests:

I. The National Forest Service (NFS) recently constructed a $10 million campground nearby that has entirely saturated the outdoor camping market. The construction of 15 additional campsites is highly unlikely to bring any additional revenue to TMR or the TLA.
II. TMR offered boats and mountain bikes for rent with no market response.
III. The rural location, lack of electric utility lines, and the expense of generating power made it uneconomical to operate a viable restaurant at a profit or for an amenity service.

9. Consent Calendar (cont'd)

f. Amendment to SULA 127 - Commercial - Trail Mountain Resort (cont'd)

Staff has reviewed the last three years of financial information associated with the lease and has concluded that the most profitable activities associated with the lease are the annual cabin rental sites and the large group sites.

The lessee has also requested a reduction in the annual base rent to allow them a better chance to reposition the business towards profits coming from annual cabin site rentals and large group sites The lessee has requested the base rent be reduced from $8,500 to $4,500. TLA recently had an appraisal done on the subject property, and the new $4,500 base rental would still be significantly above market value. TMR will be required to use the $4,000 rental reduction to develop more cabin sites and to remodel the current restaurant facilities into a large group gathering place.

In conclusion, TLA intends to amend the annual rental of SULA 127 to $4,500 until December 1, 2007, which is the date of the next rental review. TLA also intends to amend the lease to remove some of the original development plan requirements that have not proven to be economically viable for TMR or to the respective trust beneficiary. The agency believes that, under the circumstances discussed, this action is in the best interest of the trust beneficiary.

This item is approved by the Board, since there were no comments on the Consent Calendar items.

g. Amendment to SULA 763-A - Residential - Ernest Virgil Anderson

Pursuant to Rule R850-30-1000(2), this is formal notice that the agency intends to amend this special use lease by reducing the acreage footprint from 11.03 acres to one acre. SULA 763-A is a residential lease issued to Ernest Virgil Anderson. The lease currently encompasses 11.03 acres for a single-family residential home site, culinary water well, and small orchard. The lease is located in the community of Apple Valley east of Hurricane, Utah. The beginning date of the lease was December 1, 1987. The expiration date of the lease will be November 30, 2038.

The lease was recently reviewed pursuant to Board policy. As a result of this review and the increase in land values in this area, the fair-market value rental of this lease was posed to increase from $3,175 per year to $10,423/year. The lessee subsequently requested that the lease be amended to reduce the acreage from 11.03 acres to one acre, which will still encompass the home site and a small garden area. This reduced acreage will effectively reduce the fair-market value rental on the lease to $1000/year, which the lessee feels he can accommodate. The agency has consulted and worked with the lessee on various options for this lease, and this appears to be the most mutually beneficial option for both parties.

9. Consent Calendar (cont'd)

g. Amendment to SULA 763-A - Residential - Ernest Virgil Anderson (cont'd)

The remaining small agricultural orchard area (approximately 10 acres) will be converted into an agricultural lease with a shorter term and a six-month termination clause. This will allow the lessee to maintain the property in a neat and clean condition and also allow the Administration the flexibility to take advantage of any development opportunities when presented that would yield a higher and better use of the property (this property currently has strong interest for commercial and residential development). In the interim, the agricultural lease will return approximately $500/year.

A separate lease will also be issued for the culinary water well and water-tank site (.096 acres), which is not associated with either the agricultural use or the residential use on trust land. The well and associated private water right are used for culinary water on a home on adjoining private land. This lease will return $600/year.

Staff believes that this action is in the best interest of the trust beneficiary. This item is approved by the Board, since there were no comments on the Consent Calendar items.

h. Amendment to SULA 1043 - Industrial - Sunroc Corporation

Pursuant to Rule R850-30-1000, this is notice Staff intends to amend SULA 1043 by expanding the acreage associated with the lease. SULA 1043 is an industrial lease to Sunroc Corporation and was issued in 1996 for a term of 51 years. The purpose of the industrial lease is for material and warehouse storage and manufacturing of building block products. The lease contains 8.01 acres of trust land property located in Township 43 South, Range 15 West, Section 17 (Washington County). The lessee is requesting that the lease be amended to add an additional 1.86 acres, which will extend the existing lease acreage 100 feet to the north within Section 17. The additional acreage will be used for the same purpose and is needed for expanded use of the lessee's adjoining private property. The lease is currently returning $39,490 per year, which is considered fair-market value rental for this property. The additional acreage will result in the fee being increased to $48,810 per year. The lease will continue to allow for a rental review and adjustment every five years.

Purusuant to R850-30-1000(1)(e), leases may be amended to increase the acreage up to 125 percent of the original acreage. This amendment increases the acreage by 19.10 percent, which is within the 25 percent allowed by rule. All additional requirements of R850-30-1000(1) have been met. Staff believes this action is in the best interest of the trust beneficiary.

This item is approved by the Board, since there were no comments on the Consent Calendar items.

9. Consent Calendar (cont'd)

i. Amendment to SULA 1218 - Governmental - Glen Canyon Special Service District

Pursuant to Rule R850-30-1000(2), this is formal notice that Staff intends to amend this special use lease by reducing the acreage from 7.45 acres to .918 acres. SULA 1218 is a governmental lease issued to the Glen Canyon Special Service District in Big Water, Utah. The lease currently encompasses 7.45 acres, which includes three culinary water pipeline corridors, a culinary water well, and culinary water-tank site, all of which service the community of Big Water as well as trust lands in the area. This lease was originally administered by the Bureau of Land Management and was transferred to the Trust Lands Administration as part of the Grand Staircase-Escalante National Monument Exchange. The beginning date of the lease was April 12, 1993. The expiration date of the lease will be April 2, 2023.

The lease was recently reviewed pursuant to Board policy. As a result of this review and the increase in land values in the area, the fair-market value rental of this lease was poised to be increased from $400/year to $2,700/year. The lessee subsequently requested that the lease be amended to reduce the acreage from 7.45 to .918 acres, which houses only the well site and water-tank area. This reduced acreage will effectively reduce the fair-market value rental on the lease to $450/year, which the lessee feels it can accommodate. Staff has consulted and worked with the lessee on various options for this lease, and this appears to be the most mutually beneficial option for both parties.

The balance of the lease acreage (6.53 acres) will be replaced by easements to accommodate pipelines associated with the well and tank site that are under the amended lease. The Agency's standard fees and terms will be applied to these easements. Staff believes that this action is in the best interest of the trust beneficiary.

This item is approved by the Board, since there were no comments on the Consent Calendar items.

Meeting adjourned at 4:30 p.m.